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CHRISTIANITY AND DEMOCRACY
RURAL ADULT EDUCATION
(With John D. Willard)
HANDBOOK OF RURAL SOCIAL RESOURCES, EDITOR

A COOPERATIVE ECONOMY

*A Study of
Democratic Economic Movements*

BENSON Y. LANDIS



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A COOPERATIVE ECONOMY

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PREFACE

THE growth of democratic economic movements in the United States, making in broad terms for a cooperative economy, is the subject of this book. The "people's own" organizations and agencies are briefly interpreted. Many current issues raised by these widespread developments are considered, especially those related to state control of our economy, such as we now have, but which are the great concern of many people.

The popular institutions here described are both voluntary and governmental. They represent associated efforts of free people as producers, as consumers, and as participants in public cooperation or governmental enterprises of various kinds.

Definite emphasis will be noticeable in the selection and treatment of materials. This is a comprehensive summary, but not an exhaustive examination. It is concerned with the search for the public interest, and for valid techniques of mutual aid.

Further, it has unmistakably "the consumer point of view," and aims vigorously to defend the thesis that broad cooperative efforts of consumers are more likely to incarnate the public interest than are organizations of producers, important as these are. This point of view has come as a result of long study and experience.

This is not specifically a "postwar" book. It deals with processes that were under way before the war and that are observable during the war. In the postwar world the broad cooperative movements here described should meet with wide public favor because they have been gathering valuable experi-

ence. This book is also not a text in economics and not an outline of an ideal society.

It aims to provide an orientation for the alert citizen who wishes to read and discuss certain of the most potent influences in the economic world. It is for both the individual reader and the study-action or other group. For those who wish to go further in their discussions an outline is provided.

Another word of explanation regarding the scope of the volume may be necessary. Definite movements toward economic democracy are interpreted. The author is convinced they are important. He obviously is not dealing here with human cooperation in general, but only with a set of vital efforts which have some relationships to one another. Since the primary purpose of the book is to stimulate action, inquiry and discussion by interested people, the author leaves to the readers themselves many judgments with regard to the value of the organizations and agencies. Finally, he must make clear that he recognizes that the scope of the book is too broad for one author to handle so as to do justice evenly to the subjects presented. Since he felt the activities must be treated under one cover, he dared to proceed, aware of the risks of the venture.

BENSON Y. LANDIS

New York City,
January 25, 1943

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A COOPERATIVE ECONOMY

Consumption absolute is the end, crown and perfection of production; and wise consumption is a far more difficult art than wise production. Twenty people can gain money for one who can use it, and the vital question, for individual and nation, is never "how much do they make?" but "to what purpose do they spend? . . ."

The wealth of a nation is only to be estimated by what it consumes. . . .

Therefore, the manner and issue of consumption . . . are the real tests of production. . . .

For as consumption is the end and aim of production, so life is the end and aim of consumption. . . .

There is no wealth but life. Life, including all its powers of love, of joy, and of admiration.

JOHN RUSKIN

From "Unto This Last." First published in the *Cornhill Magazine*, England, 1860. Republished 1862. Republished in the Everyman Library, 1907. Used by permission of E. P. Dutton & Co., New York.

Chapter I

COOPERATIVE PURCHASING

I believe the distinction . . . between associations of producers on the one hand, and associations of consumers on the other hand, to be no idle fancy, but perhaps the most pregnant and important piece of classification in the whole range of sociology¹

—BEATRICE WEBB

IN 1913 Louis D. Brandeis began the publication of a famous series of articles on "Other People's Money" in *Harper's Weekly*. Although the series dealt mainly with the need for effective public regulation of banking, the noted liberal jurist included numerous references to voluntary cooperative enterprise. Mr. Brandeis recorded with much satisfaction that there were then in the United States about 350 cooperative retail distributing associations, of which 100 were in Minnesota, Wisconsin, and other northwestern states. The Tamarack, Michigan, Consumers' Cooperative Association, he wrote, had distributed over \$1,000,000 in patronage dividends to its members over a period of twenty-three years. The movement toward federation of local co-ops was under way. England's consumers' cooperatives were already her "big business." Mr. Brandeis quoted an enthusiast who envisaged "a world-wide cooperative alliance," powerful enough to replace the private monopolies which were disturbing many people of the time. In later years, when the author of the series became Mr. Justice Brandeis, he made more than occasional references in his brilliant opinions, mainly dissenting, to the economic and ethical values to be found in the consumers' cooperatives.

This technique of consumers' cooperation has been called one

¹ *The Discovery of the Consumer*, New York: The Cooperative League, 1935.

of the greatest of social inventions. It is a device of social and economic organization that, if widely applied, could democratize our economic processes generally. It has been used, and adapted, by people in forty nations, and the membership of *all types* of cooperatives throughout the world is estimated to be over 100,000,000 persons. It is found useful among China's millions of refugees, consumers in Moscow and Rome, and the poor peasants of Japan. It has flourished best in Scandinavia, where an educated citizenry became really interested in building an economic as well as a political democracy. In these countries co-ops have done enough business to influence general price levels, and have become "yardsticks of price and pay" for the whole economy. Development has also been extensive in other democracies of western Europe, notably the British Isles. Some of the most remarkable recent stories of the growth of this movement come from South and Central America. In the United States, consumers' cooperation has been called the "one or two per cent" business, because these co-ops do only that percentage of the *total* retail trade of the nation. (This means, of course, that in some cases the proportion of co-op business is higher.) One of the country's best known business analysts reported in 1941 to the Temporary National Economic Committee that consumers' cooperatives had no bright prospect of growth. Another prominent economist engaged in research says privately that consumers' cooperation is an outworn theory. But for twenty years the "curves" of consumers' cooperative business have been different from those of other business. Consumers' co-ops kept on growing in hard times.

Is there perhaps a mysterious paradox about this whole cooperative business? Some prominent experts say the prospect is poor. But what shall we do about the following: John Chamberlain surveyed consumers' cooperation for *Fortune* magazine in 1937, finding 1,650,000 members providing them-

selves with \$365,000,000 worth of goods and services a year, a rate of exactly \$1,000,000 a day. Four years later, figures of the U. S. Bureau of Labor Statistics, the Farm Credit Administration and the Cooperative League, indicated a gross membership of 2,500,000 and an annual business volume of \$700,000,000. The co-op idea has hands and feet. And might the situation be explained by the recognition that a great many American people are convinced that there is about this 2 per cent business a high ethical quality? May it be that the people themselves are coming to be increasingly interested in democratic business institutions?

THE BIRTH OF THE IDEA

It was in a textile town in England about a hundred years ago. The plight of weavers in the mills at Rochdale, England, in the early nineteenth century was typical of conditions in capitalistic industry at that time. The poverty among the industrial workers was almost unbelievable. The years between 1840 and 1850 may be called the "hungry forties" for the industrial classes of England. The Rochdale textile workers, in the first flush of the industrial revolution, were startled at the rapidity with which men were being displaced by machines.

In 1843 the Rochdale weavers lost a strike and some found themselves without jobs. The "crazy weavers" met many times to consider a new way of organizing their economic life. They had the old dream of owning the factories and the stores—and they brought their dream to earth by organizing themselves into a society of twenty-eight members, one of them a woman. From this humble beginning, the group worked out what are known as the Rochdale principles, the tested methods of the cooperative movement. The Equitable Society of Rochdale Pioneers first struggled with the question of capital. The savings of each member, a pound apiece, were pooled. At the end of twelve

months their share capital amounted to \$140. The Pioneers rented an old warehouse on Toad Lane, a street just about as unattractive as the name implies. Half of the capital went for equipment and improvement of the building. The other half went for goods—a small amount of flour, sugar, butter, and oatmeal. On December 21, 1844, Samuel Ashworth, the first employee of the cooperative, opened the doors of the store and announced that the society was ready for business. .

The handful of weavers gathered together in the store were not quite certain whether to buy or to run away from the enterprise. They had to submit to derision of every sort. But the Rochdale Pioneers had known what it was to be laughed at before and they knew how to persist in spite of ridicule.

Charles Howarth was the man mainly responsible for drawing up the purposes of the organization. They were in part put concisely as follows:

1. The establishment of a store for the sale of provisions and clothing.
2. The building of a number of houses, in which those members desiring to assist each other in improving their domestic and social condition, may reside.
3. The manufacture of such articles as the society may determine upon, for the employment of such members as may be without employment, or who may be suffering in consequence of repeated reductions in wages.
4. The purchase of estates of land which shall be cultivated by the members when out of employment. . . .

The Rochdale Society, which began with twenty-eight members and twenty-eight pounds of capital in 1844 grew decade after decade until recently its membership numbered more than forty-five thousand persons, and the capital was over half a million pounds.

There were others who contributed to the origin of the cooperative movement. A predecessor of the Rochdale Pioneers

was Robert Owen, an idealistic factory owner who could not forget the misery of the workers in England. He appealed to the factory owners and to his government to change conditions. Owen, who made his own factory a model for the nation, launched experiments aimed at bringing happiness to the laborer.

Another who preceded the Rochdale Pioneers was William King, "the father of British cooperation." Dr. King, a physician who spent the major portion of his time ministering to the poor, was not content to be concerned about diseases or the methods of making the sick well. He resolved, in addition, to do something about the overwhelming poverty that was one of the major diseases of the nation. He published a magazine called *The Cooperator*—in which, like Owen, he advocated that the workers own their machines. Like the Rochdale Pioneers, he appealed to groups of workers to start cooperative stores. As early as 1829 he reported the organization of a number of associations for mutual aid, but they did not last.

Neither King nor Owen had the necessary technique to launch a permanent movement. It remained for a group of hungry weavers to supply the device and the will for a cooperative movement destined to spread to forty nations of the earth.

THE COOPERATIVE PRINCIPLES

Here are the "tested methods" of consumers' cooperation:

1. Membership open to anyone.
2. One member, one vote; no voting by proxy.
3. Share capital is paid a moderate, fixed return.
4. Surplus of an association is returned to a member to the degree to which he has used it—the patronage dividend.
5. Neutrality on the part of the co-op in religion and politics.
6. Trading on a cash basis.
7. Education of members and nonmembers with reference to the cooperative principles.

"Cooperation is a nonpolitical and voluntary method whereby the people unite and use their resources to supply their needs. The purpose is to get the largest possible direct access to the things that people want." These are the words of J. P. Warbasse, who was for many years president in the Cooperative League of the U. S. A., the educational agency of the American Consumers' Cooperative movement. Dr. Warbasse explains further: "Through cooperative societies the consumers perform for themselves the useful functions of supply which are otherwise performed by profit business, by the political state, by charity, or by the unaided individual."

THE TECHNIQUE HAS BEEN VARIOUSLY ADAPTED

The Rochdale Pioneers worked out a scheme of consumers' cooperation. If carried out thoroughly it would provide for an economy with the consumers owning, managing, and controlling. It is an inclusive type of organization. But no organization has as yet been devised for automatically resolving the conflict of all interests or groups. Consumers' cooperatives, for example, have employees, and these employees often have a different interest from that of the consumer members. Employees frequently have the producer interest, and consumers' cooperatives therefore face the problem of reconciling employer and employee. The employees of consumer co-ops may, of course, join the organizations and fully participate as owners.

The history of economic cooperation shows that changes have been made in the technique as it has been adapted to marketing, purchasing and credit. In the United States the dominant type of cooperative is that among farmers for the purpose of marketing their products. Farmers' marketing organizations carry out some but not all of the principles of consumers' cooperation. At various times and places producers have organized cooperatives. There are, for example, cooper-

ative factories among fishermen for canning of lobsters and other fish on the coasts of Nova Scotia. These can carry out some but not all of the principles of consumers' cooperation. Credit unions are small cooperative banks that serve consumers. They are sometimes organized within cooperatives that have other purposes. The credit union technique is more limited than that of consumers' cooperation. But as we shall see, the various types of cooperatives have common interests, and may be closely related to one another.

TYPES OF COOPERATIVES

In the United States we customarily think of four types of functions performed by cooperatives:

Purchasing cooperatives.—These are the most inclusive and important of all cooperatives. Ordinarily consumers' cooperation starts with a group of people who engage in the retail trade, and extends to wholesaling and to production. Consumers' cooperation encourages the development of private property in consumers' goods, while at the same time it works for the social ownership of the means of production and distribution through voluntary efforts. These will be further discussed in this chapter.

Credit cooperatives.—Here is a specialized function performed by credit unions and other associations of various types. Cooperative credit organizations may supply both short-term and long-term credit to their members. The aim has been to provide credit at low interest rates and to take the private profit out of the credit institution. See Chapter 2.

Marketing cooperatives.—Agriculture is distinguished by individual production on the small family-size farm. But farmers need collective action when it comes to dealing with distribution

problems. Hence there has come about a great development of marketing associations. See Chapter 4.

Production cooperatives.—These have been confined to instances of industrial workers who have combined to own and operate a factory, and to the small farmers who have lately expanded these activities, through the encouragement of the Farm Security Administration. There is apparently an opportunity for producers' cooperatives among isolated groups that are exploited, and for self-help associations formed for relief purposes. See Chapter 5.

THE TECHNIQUE HAS BEEN VARIOUSLY MOTIVATED

As is the case with every other device of human organization, this social invention has been variously motivated. For several decades prior to the great depression of 1929 the consumers' cooperative movement was kept alive in the United States by a group of Finns, who have in many instances been distinguished for their "freethinking." There are many people in the cooperative movement who look upon it as a limited technique which makes certain savings in the distribution process, but which is not intended to replace or reorganize capitalism. There are many places in which Socialists, capitalists, Republicans, Democrats and people with still other values are members of a cooperative association. But the rank and file of the members of the cooperatives in the United States increasingly regard them as a promising means of taking a thorough reorganization of our economic order.

In Nova Scotia the Scotch Catholics are throwing themselves into the cooperative movement with the sanction of the leaders of the church. In the United States many Catholic groups are studying the cooperative movement with the encouragement of the hierarchy. Many American Protestants learned about the

cooperative movement from Toyohiko Kagawa, of Japan, on his American tour of 1935-1936. Kagawa frequently speaks a different language from that of the "freethinking" Finns. He says the cooperatives are the technique of brotherhood, which Christianity should motivate. He says that cooperatives are the "love principle in economic action."

Many people of the liberal tradition are favorable to consumers' cooperation because they think of it as a promising "middle way." They think cooperatives have great significance for our times. They regard them as schools in economic democracy, as places where people acquire experience in carrying on their own business. They regard them as promising movements of voluntary social ownership, whereby the people shall eventually own their own country and carry on business of the people, by the people and for the people. And most of these liberals look to cooperatives eventually to transform our economic society.

EXTENT OF COOPERATIVE PURCHASING IN THE U.S.A.

Wallace J. Campbell, assistant secretary of the Cooperative League of the U.S.A. recently compiled the most comprehensive picture of cooperative purchasing in the booklet *Here is Tomorrow*, from which the table below is taken:

COOPERATIVE PURCHASING ASSOCIATIONS IN THE U.S.A., 1941

TYPE OF ASS'N.	NO. OF ASS'NS.	MEMBERSHIP	VOL. OF BUSINESS
<i>Commodity Co-ops</i>			
Cooperative stores	3,100	485,000	\$129,650,000
Service stations or petroleum cooperatives	1,500	480,000	92,875,000
Farm supplies (less petroleum)	1,149	420,000	355,325,000
Other commodity co-ops	50	25,000	5,800,000
	<hr/> 5,799	<hr/> 1,410,000	<hr/> \$583,650,000

TYPE OF ASS'N.	NO. OF ASS'NS.	MEMBERSHIP	VOL. OF BUSINESS
<i>Service Co-ops</i>			
Medical cooperatives	30	15,750	345,000
Funeral Associations	40	32,500	200,000
Housing Associations	60	3,750	2,530,000
Campus co-ops and others providing room and board	380	110,000	3,750,000
Miscellaneous service co-ops	150	15,000	160,000
	<hr/> 660	<hr/> 177,000	<hr/> \$ 6,985,000
<i>Specialized Consumer Co-ops</i>			
Rural electric co-ops	700	575,000	16,650,000
Credit Unions	9,510	2,816,000	302,339,000
Telephone cooperatives	5,000	330,000	5,485,000
Cooperative Insurance Associations	1,800	6,800,000	103,375,000

FARMERS ARE PACEMAKERS

As will be seen from the preceding table, farm people have led the way in cooperative purchasing. In 1913 there were 111 farmers' purchasing associations with 59,500 members and an annual business of about \$6,000,000 a year. In 1941 there were 2,657 purchasing associations, with 980,000 members, and business valued at \$369,000,000. (In addition, the marketing cooperatives, discussed in Chapter 4, do a purchasing business of about \$80,000,000.)

These co-ops purchase farm supplies, mainly feed, seed, fertilizer, oil and gasoline. They purchase one-sixth of all these standard farm supplies. They are also rapidly expanding the handling of groceries. Farm purchasing co-ops have pioneered in introducing "open formula" feeds and fertilizers, thus assuring their patrons of high quality. For example, the cooperative G.L.F. Exchange, with headquarters at Ithaca, New York, owns and operates the largest feed mills in the world for its members. In New England, the Eastern States Farmers Exchange renders service to patrons in six states, and the

Southern States Cooperative has a constituency in five states.

Four purchasing associations started by the State Farm Bureaus of Ohio, Indiana, Pennsylvania and Michigan, pioneered in the 1930's in the building of co-op owned fertilizer factories. They have done a sufficiently large volume to survive a "price war" started by the "fertilizer trust," to influence the price level of all commercial fertilizer in their territories, and to have achieved the distinction of being the first co-ops in America to emulate their Swedish brethren and "crack a trust." In the Southern states, a co-op feed mill carries this sign: FARMERS HAVE PAID FOR MANY FEED MILLS, BUT THIS ONE THEY REALLY OWN.

THE MOST DRAMATIC GROWTH

The most dramatic of all recent developments have been "done in oil," Mr. Campbell recites in his survey. The first gas and oil distributing co-op was organized in Cottonwood, Minnesota, in 1921. Five years later the first co-op wholesale was formed to purchase for the locals. From that beginning grew Midland Cooperative Wholesale of Minneapolis, which handled \$6,000,000 worth of goods in 1941. Now over 1,500 local co-op service stations furnish oil to about half a million members.

Consumers' Cooperative Association, North Kansas City, Missouri, was organized in 1929, with only \$3,000 of capital and only six local co-ops. Since then it has pioneered in processing and production of oil products. It built its own compounding plant, and bought one from a competitor. Grease and paint factories were soon added, to be followed by the building in 1940 of a co-op owned oil refinery and pipe line. C.C.A. has the distinction of owning the first co-op refinery in the United States of America and the first co-op oil well and pipe line in the world. After a tussle with competitors,

this association has built additional pipe lines and drilled additional oil wells. Thus C.C.A. built a co-op that moved from retail distribution back to complete ownership of raw materials and distribution facilities. The State Farm Bureau Cooperative Associations mentioned above have been extensive distributors of oil, Indiana operating its own well in 1940. In 1942 members of the Ohio association raised \$225,000 and decided to buy a refinery. Co-op wholesales that distribute oil extensively include the Farmers Union Central Exchange of St. Paul; Pacific Supply Cooperative of Walla Walla, Washington; Grange Cooperative Wholesale of Seattle; Consumers' Cooperatives Associated of Amarillo, Texas. Midland and C.C.A. have recently added growing grocery departments.

GROCERIES

National Cooperatives, Chicago, was organized in 1933 by seven regional purchasing co-ops. It now serves seventeen of them (two in Canada), having 750,000 members. Six of these purchase groceries through National Cooperatives. Co-op retail stores number 3,100, are found in all sections of the country, and supply half a million members. A thousand of these carry the uniformly labeled "co-op" groceries, over which cooperatives exercise control of quality. Examples of regional wholesales that have especially developed the grocery trade include Central Cooperative Wholesale, Superior, Wisconsin; Eastern Cooperative Wholesale, Brooklyn; Central States Cooperatives, Chicago; Associated Cooperatives of Northern California, Oakland. Southeastern Cooperative League is in process of forming retail co-ops for the South.

An achievement of co-op groceries has been their emphasis upon the use of the simple A-B-C grade labeling of canned goods, as recommended by federal government agencies. Then they added "informative labeling" of their own, so as to give

consumers all available facts. When products do not carry the government grade label of A-B-C, co-ops have of their own accord put on their own 1-2-3 grade system. In co-op testing kitchens, consumers employ experts whose sole motive is to protect consumers and standardize and improve quality of products. Every shipment of supplies is critically tested to learn if it comes up to the standard specified.

A signal contribution to retail distribution has been made by Consumer Distribution Corporation, New York, begun by the late Edward A. Filene, Boston merchant who turned co-operator. This agency has specialized in assisting more than a hundred co-op stores to modernize their premises, and "streamline" or "face-lift" the stores.

SERVICE CO-OPS

The National Committee on Student Cooperatives reports that on 200 campuses there are about 380 co-ops operating bookstores, rooming houses, restaurants and eating clubs.

Thirty cooperatives have been organized to provide medical or hospital care for their members. Housing associations number sixty, and there are possibilities of new ventures aimed at eventual cooperative ownership of government-built housing projects.

Forty co-op burial associations in rural areas of the Middle West claim to have reduced their costs to 50 per cent of the prevailing rates.

RECREATION AND EDUCATION

Co-ops are popularizing folk games, and all sorts of leisure time activities. Co-ops are educators of their own members, and large numbers of other young people and adults. For education is a tradition in the cooperative movement—it's one of the principles of the founders.

The Cooperative League of the U.S.A., the educational agency with which many of the regional purchasing cooperatives are affiliated, is closely related to National Cooperatives. The headquarters are together in the home office in Chicago. The president of the Cooperative League is Murray D. Lincoln, of the Ohio Farm Bureau and its associated cooperatives. The general secretary is E. R. Bowen, who came to the cooperative movement from a career in business administration. The league has only very recently become active on legislative matters. Among its positions are the following: The league directors have favored a national commission on postwar reconstruction that will include representatives of government and voluntary agencies, including education and religion; they opposed a general federal sales tax and payroll taxes; they supported increased graduated personal income taxes, corporation, inheritance, gift and war profits taxes. For further details see Chapter 11 on "Taxation." They have urged all local cooperatives to appoint public affairs committees. The Cooperative Congress of 1942 set up a committee on postwar reconstruction and approved preliminary plans to put postwar relief on a cooperative basis. It also advised all cooperatives actively to support the rationing of scarce commodities in wartime. The league carries on national programs of cooperative education, recreation and publicity.

VARIATIONS IN ORGANIZATION

In Hermiston, Oregon, a fairly complete co-op town, certainly one of the nation's most cooperative communities, there was a grain and feed co-op; a farm supply co-op; a co-op oil station; a co-op grocery and a co-op association for distributing electricity by 1929. But the enterprising women of the Farm Bureau discovered a lack, when one farm woman said she could not afford to buy a washing machine. Thereupon there

was organized a new association, run by women, that owns seven washing machines. More than three hundred families use the co-op laundry. Each patron has a machine and an hour assigned to her. Soon the co-op added a cannery that is described as simplicity itself—in this Hermiston Cooperative Laundry and Cannery—this distinctive cooperative in a cooperative community. The cannery buys cans for its members, supplies them with the necessary processing equipment and some storage space. Patrons make ready the commodities to be canned, and fill their own cans themselves. This co-op is housed in its own building and does an annual business of well over \$5,000.

In Waukegan, Illinois, the Cooperative Trading Company, organized in 1911, is believed to have the most unusual bylaws of any cooperative in the nation. It includes in its membership city consumers and the farmers who furnish milk to the cooperative. The membership has recently included over 2,000 city consumers and about sixty farm producers who supply milk. The dairymen were invited to membership in the consumers' cooperative in 1921, when they were contemplating organizing a separate marketing cooperative. The dairymen receive, under agreement, the prevailing Chicago price for their product; the dairymen as members receive patronage dividends on their sales to the co-op as well as on their purchases from it; they also receive interest on their shares of capital in the association. The cooperative conducts a retail grocery business, in addition to the handling of dairy products. In recent years annual sales have been as high as \$700,000.

RECENT EMPHASES

There's a study-action group movement on in the cooperatives. Several thousand of these small circles are meeting the situations before them. In-service professional training is being offered to an increasing number of employees of the movement.

Persons wishing to enter the movement as employees have the opportunity of studying under the Rochdale Institute and the Council for Cooperative Business Training in New York; or at regional training schools. And all the education is being directed to the big tasks just ahead. For cooperative leaders take a broad, functional view of education. They think that to be good, education must be linked with some form of action. Co-op leaders are preaching and teaching cash trading; "stop the credit business"; get out of debt fast; build up the reserves; persuade individual members to invest heavily enough in a co-op to enable them to feel a real responsibility for it; put an end to the sugar-coating era of the cooperative movement; be prepared to ride out the storms of the postwar era.

The expansion of co-op owned production units is being pushed. The purchasing co-ops of the United States and Canada already own and operate a total of forty-nine of these, including refineries, oil wells, fertilizer factories, feed and flour mills, bakeries, paint, grease and farm machinery factories, a coal mine, a lumber mill. (Credit and other finance activities are considered in the next chapter.)

VALUES TANGIBLE AND INTANGIBLE

Dr. Horace M. Kallen, one of the nation's ablest philosophers, recently put the great values of this social and economic movement this way:

To me, the entire meaning is [found in] the way in which the association of people under Rochdale rules . . . dissolves the coercions of earning a living into the liberties of living a life; the way it lifts the tasks of the worker from the level of servile means to the dignity of liberal and liberating ends. . . . This transvaluation of the producer into the consumer psyche seems to me the revolutionary contribution of the Rochdale cooperative to the liberation of human life, and I should not be surprised if future historians held the rules of Rochdale a more momentous forwarding of freedom than the Magna Charta. For these

rules define the economic organization of liberty: addressing themselves to freedom from want, they postulate the operation and consummation of the other . . . freedoms.²

Others make much of the cooperative as a decentralizing force, as a means of restoring to the people themselves the ownership of the facilities for production and distribution. E. R. Bowen writes:

Consumers' cooperation means private ownership by the people. It will make possible the realization of our possessive rights. It recovers for the people the private ownership of their homes and farms, as well as a share in all the business and banking organizations of America. It makes everyone an owner of property. It eliminates the privileges resulting from private-profit business and banking. It continues the concentration of wealth necessary for efficient production and distribution, but diffuses the ownership widely into the hands of all the people. . . . Consumers cooperation means true self-government in business.

And one of the most inclusive statements ever made comes from a refugee scholar, Goetz Briefs, now of Georgetown University. Summarized in *Consumers' Cooperation* for March, 1942, Dr. Briefs' ideas are given as follows:

Cooperation integrates self-interest and social responsibility. That is its great virtue. It recognizes both individual liberties and social organization as natural and necessary to man, and supplies them. Capitalism with its tendency toward monopolies has directed efforts toward self-interest, has neglected social responsibility, and has denied ownership to the masses. Stateism tends to divorce "social responsibility from economic organization," and political controls over an economy tend toward dictatorial bureaucracies. The cooperative system thus contains the highest ethical and social values.

CRITICISMS AND PROBLEMS

"It's too slow." This is probably the most frequently heard statement, when problems of applying the cooperative method are the topic of conversation. Sometimes the remarks are a bit

² *Saturday Review of Literature*, May 23, 1942.

different: "People won't join co-ops rapidly enough to affect the total situation. . . . Co-ops are naive. . . . Co-ops are neutral, and can't affect government policy." Since co-ops offer a "middle-way," they naturally draw criticisms from various angles. Big business sometimes dismisses co-ops as relatively unimportant, but sometimes also applies powerful pressures of various kinds to put them out of business. Governmental administrators do various things; some encourage co-ops; some are indifferent; some carelessly hinder co-ops; some are opposed. Political radicals who favor a high degree of state ownership of economic enterprise are also apt to discount the voluntary method. But many American Socialists, for example, have contended that there is place for both a good deal of public ownership and of strong voluntary economic organization.

The indifference of the people, inadequate capital, the absence of adequate cooperation among cooperators, the lack of an adequate program of training management and of popular education—these are probably most readily recognized as outstanding problems by the leaders of the purchasing movement itself. And these leaders are very confident. They state that organization is being speeded up, that many more people are aware of the co-op potentials than are signed up as members, and that consumer co-ops have a broad educational influence far beyond what one would expect when one considers their budgets and their numbers.

Chapter 2

COOPERATIVE FINANCE

The consumer ideal can consecrate and transform the most prosaic and material item of economic behavior into a spiritual event.¹

—HORACE M. KALLEN

"Do you know of a place where the man who wants to borrow \$20, to be repaid bit by bit in a year, is as important as the one who wants to borrow \$2,000?"

"I know about ten thousand such places."

"You're sure about that?"

"Yes—ten thousand credit unions in the United States of America."

"Never heard of them."

The credit union movement is one of the "quiet streams" among the peoples' economic organizations, so quiet that, as in the conversation quoted, many informed people have never heard of it. It has been demonstrating that ordinary people can become their own bankers, for short-term credit. Already over 4,000,000 persons are members of a growing movement. Credit unions are relatively simple to organize, compared with retail stores or insurance companies, and many people interested in cooperative institutions tend to advise an interested group "to organize a credit union first," acquire experience and educate a leadership, and then move on to other forms of association. Of great significance, too, is the fact that another co-op may become a member of a credit union, and borrow from it. Thus the pooled savings of the people may be used, through the credit union, to furnish capital for other co-ops.

¹*The Decline and Rise of the Consumer*, New York: D. Appleton-Century Company, Inc., 1936.

The first credit union in the United States was formed in the Roman Catholic parish of Ste. Marie in Manchester, New Hampshire, in 1909. The first state credit-union law, or enabling act, for the organization and supervision of credit unions, was that of Massachusetts in 1909. The Russell Sage Foundation, for example, was influential, among various agencies, in stimulating early efforts in New York, where a state law was passed in 1913.

In 1921 there were only 199 credit unions in the United States. Between 1921 and 1943 over 10,000 were organized. Since 1935 around 1,000 new organizations have been chartered annually by either state or federal governments. About 40 per cent of the credit unions operate under federal charter. The Federal Credit Union Act was passed by Congress in 1934. The Credit Union Section of the Federal Deposit Insurance Corporation, charters and audits the Federal credit unions. All but a small proportion of credit unions serve people living in cities.

WHAT IS A CREDIT UNION?

A credit union is a group of persons associated together for the purpose of building up a fund with their own savings and of making short-term loans from this fund, at reasonable interest rates, to members of the group. State and federal laws require that an organization be limited to a specific group of people who have common interests and already associate with one another. It may be organized among the employees of one business firm, or among the members of a church, a professional organization, a lodge, a college faculty, or a rural community.

As in other kinds of cooperative associations, the credit union operates with the rule of one vote for each member, no matter how many shares are held. The accounts are examined

annually by state banking authorities, and the organization makes annual reports to the responsible governmental agencies. Accounts are also audited at regular intervals. Every member must subscribe to at least one "share," or unit. Funds deposited by members may be withdrawn as from a bank. Loans made to members are repaid by means of systematic payments weekly or at other intervals.

Credit unions are commonly known as cooperative banks, or banks of the people. They may be small or large. Credit unions customarily meet the short-term credit needs of people with moderate or low incomes, persons whom the commercial banks often do not serve. There appears at present to be no noticeable opposition by commercial banking to the credit union movement, possibly because there is a sort of division of labor between the two types of institution, possibly also because credit unions themselves maintain accounts in banks. (One conflict in terminology is worth noting. In one state, Massachusetts, numerous "cooperative banks" are incorporated, institutions which are known in other states as Building and Loan Associations.)

A credit union operates through a board of directors, a credit committee and a supervisory committee, chosen by and from the members in elections. Although not required by law, a constantly increasing number of credit unions have educational committees, which are appointed by the directors, or elected by the members. The directors choose the officers from their own number. They select a bank of deposit. The treasurer is bonded. The credit committee passes upon all loans made. The supervisory committee checks the books of the association every three months.

Every credit union starts in a small way, and members and officers may thus learn by doing. Generally speaking, from seven

to twenty citizens may petition for a charter by paying a small fee to state or federal authorities. If the petition is granted, the originating group elects officers, who must be chosen from the interested group, but not necessarily from the petitioners. State and federal laws are administered with considerable uniformity.

ORIGINS

The first credit union in the United States, formed as noted before within the Manchester, New Hampshire, parish, has grown until it has recently reported total assets of more than a million dollars. It was organized by Alphonse Desjardins, the Quebec journalist who was greatly moved by the encyclical of Pope Leo XIII on *Rerum Novarum* (the condition of labor) in 1891. Desjardins learned about an early experiment in a Catholic parish in Rustico on Prince Edward Island in 1864, which was apparently, if not in name, the first credit union on the continent of North America. Desjardins formed the first Quebec union at Levis in 1900. When he died in 1920, he had helped to form 180 credit unions or people's banks in Quebec, where in 1941, 562 such organizations were reported.

Edward A. Filene, noted Boston merchant and philanthropist, "majored" from 1921 until his death in 1937 on the extension of credit unions in the United States. Curiously enough, Mr. Filene seems first to have been impressed with the credit unions in the villages of India. He threw his influence behind the movement which resulted in the first credit union law in Massachusetts in 1909. Mr. Filene, who financed the work, and Roy F. Bergengren organized the Credit Union National Extension Bureau in 1921, with headquarters in Boston. Mr. Bergengren has since been a national professional leader of the movement. In 1935 the Extension Bureau became the

Credit Union National Association (C.U.N.A.) which now has headquarters at Madison, Wisconsin, and is a fraternal member of the Cooperative League of the U.S.A. There are forty-three state leagues and one in the District of Columbia. There are leagues in the Canadian provinces of Ontario, Nova Scotia and British Columbia. Nearly four hundred district organizations, or chapters, meet monthly for educational purposes. C.U.N.A. and its member state leagues provide information and assistance, free of charge, to groups interested in learning about credit unions.

Four Presidents of the United States have been identified with the extension of credit unions. Calvin Coolidge was in the legislature of Massachusetts in 1909, and was a member of the Committee on Banks which approved a credit union bill. William Howard Taft when President sent a letter to all the governors of the states urging legislation similar to that of Massachusetts. Herbert Hoover signed the bill authorizing the organization of credit unions in the District of Columbia in 1932. Franklin D. Roosevelt, when a state senator, introduced a credit union bill in the New York legislature, and as President signed the federal credit union bill in 1934.

The entire development may be traced to beginnings in Germany, where Frederick William Raiffeisen, when mayor of Flammersfeld, organized a cooperative credit society in 1849, and later at Heddesdorf the type of organization now known as a credit union. Raiffeisen was a public servant of high ideals, who became a practical idealist through the organization of numerous cooperative credit associations. Myron T. Herrick, once ambassador of the United States to France, referred to Raiffeisen's "deep religious nature," and reported that Catholic priests and Protestant ministers often remarked about the great influence he had had, particularly in the rural communities of his land.

EXTENT OF THE MOVEMENT

The impressive growth during recent years is illustrated by the following table based upon reports from C.U.N.A.:

CREDIT UNIONS IN THE UNITED STATES

<i>Year</i>	<i>Number</i>
1936	5,014
1937	6,019
1938	7,076
1939	8,291
1940	9,134
1941	9,886
1942	10,084

In the light of all this growth, informed officials of the movement believe it is still in its infancy, that the state of New York alone might easily have 10,000 credit unions eventually.

There are well over one thousand credit unions in Canada, including about four hundred in the maritime provinces, especially Nova Scotia, where the stimulus came from the Extension Department of St. Francis Xavier University, which has been at work for fourteen years. More than half the credit unions of Canada were reported from Quebec, where the movement started, as pointed out earlier in this monograph. An April, 1941, dispatch from Newfoundland reported the organization of a credit union in northern Labrador, named after Sir Wilfred Grenfell, the noted medical missionary.

INTEREST ON SAVINGS AND ON LOANS

After the first year of operation credit unions usually pay a dividend to their members. The rates vary from 2 per cent to 6 per cent. The average dividend is reported to be between $4\frac{1}{2}$ per cent and 5 per cent.

The main function of the credit union is to make loans to its members. "Small loans" are customary, and this is in striking contrast to the practices of commercial banks. In actual credit

union practice, the family needing \$20 is as important as the one intending to borrow \$2,000. Each applicant must explain the purpose of the loan, and plans for repaying it. The credit committee, ordinarily consisting of fellow workers or neighbors, knows the applicant, and helps to guard against unwise borrowing. Loans are ordinarily made for "productive and provident purposes," such as the consolidation of old bills, payment for medical care, funerals, education, taxes, home repairs, furniture, etc.

Maxwell Stewart in *Credit Unions—The People's Banks*, says:

Credit unions ordinarily charge one per cent a month interest on their loans. A few charge less. A credit union does not need to investigate each applicant. Its members already know each other. If all are employed in the same factory, for example, the credit union can make sure of getting its repayments each payday. Moreover, credit unions have little overhead. They rarely have much, if any, rent to pay. Their offices are at the plants where the members work, at a church, lodge, or apartment house. At most a little corner need be rented. They pay few or no salaries. They need not advertise or solicit business. And they have practically no losses. Since they are formed to help the little man, they do not increase their charges on small loans. [Some credit unions are very large and have staffs of employees.]

In contrast to the practices of credit unions, legal interest rates of industrial banks and licensed small loan companies vary from 1 to 3½ per cent on the unpaid balance, *a month*. (Unlicensed "loan sharks" often charge at the rate of 120 per cent to 540 per cent interest on a yearly basis.) The smaller the loan, the higher the rate is a frequent practice.

Over 4,200 credit unions provide a service to their members by insuring the unpaid balance of their loans against death and permanent disability of borrowers. The credit unions carry this insurance with their own company, C.U.N.A. Mutual Insurance Society, organized in 1935. This insurance society now has

coverage in force of \$89,000,000, which is considered an impressive achievement.

WHAT RECORD OF SUCCESS AND FAILURE?

How many credit unions fail? This is a question frequently asked. The figures previously cited indicate impressive and rapid growth. Perhaps the critical period of testing lies ahead. But "the record" indicates remarkable staying power through good years and bad, in this and other nations. There are those who think credit unions do their best work in times of depression, rather than in those of prosperous activity.

Maxwell Stewart in the pamphlet cited summed up available data about failures. In Massachusetts, the pioneer state with the longest experience in the United States, twenty-six credit unions closed in 1932, the bottom of the depression, and about two hundred closed in twenty-eight years. The national experience of the Farm Credit Administration (in which the Federal Credit Union Section was administered prior to 1942) indicated to May 31, 1940, that only 291 of the 3,920 federal charters granted to that date had been cancelled, and over two hundred of these were voluntary liquidations. Forty-five of these "closed without beginning" any transactions. Only five charters were suspended by the federal authorities.

The F.C.A. found four main reasons of failure in a special study of 165 closed federal credit unions made in 1939, also summarized by Mr. Stewart. More than $33\frac{1}{3}$ per cent of the failures were due to the difficulty of obtaining competent officers and committee chairmen; nearly 20 per cent closed because they had too small a number of members; about 10 per cent closed because of opposition or lack of cooperation from management, in industrial credit unions; the remainder of the failures were accounted for by unemployment, or fear of unemployment, labor disputes, etc. For the most part, failures were

evident fairly early—the average life of the closed credit unions was only a year and a half. More than 70 per cent of the federal credit unions failing were able to pay back their shareholders in full. Only one failure was reported traceable to dishonesty.

FARMERS' MUTUALS

One of the oldest of the peoples' economic institutions has been the "farmers' mutual." A few of these local fire insurance associations have operated for over a hundred years. About half of the farmers of the country, mainly those in the North, have provided themselves with fire insurance through these agencies. They are known as "genuine mutuals" in cooperative circles, in contrast to the large life insurance companies which, although mutual in form, are frequently not so in operation or spirit, and are closely associated with profit business.

Farmers' mutuals number about 1,950, and they have insurance in force of over \$11,000,000,000. More than half of them have operated for over fifty years. T. G. Stitts of the Farm Credit Administration wrote of them a few years ago that "they are organized and managed on a cooperative basis," and constitute "one of the oldest and most widespread forms of cooperation in rural America." They have been very successful in providing protection at moderate cost. By modern standards, many of them are too small, because their charter provided for a limitation of the business to one township. County units have been more efficient.

CO-OP INSURANCE

Insurance organized on the Rochdale principles has recently been growing very rapidly in the United States. There are now many parts of the country in which an individual may insure life, automobile, home, furniture, liability against acci-

dent and hospital and medical care—all through genuine cooperatives. It has meant economical insurance. It has also meant that the accumulated savings are used by these cooperatives for the benefit of the consumer. Cooperative insurance agencies have helped to finance co-op oil stations, apartments, etc.

Extensive organization of cooperative insurance has taken place in Ohio, where the Farm Bureau members decided in 1926 to go into the business and made an initial investment of \$10,000 to organize the Farm Bureau Mutual Automobile Insurance Company. In 1942 this company had almost 400,000 policyholders in eleven states and the District of Columbia. It was the fifth largest company of its kind in the country. Although started as a farmers' organization, the Farm Bureau Mutual now has over half its members in cities.

Today the Farm Bureau Insurance Services include the above organization and the Farm Bureau Life Insurance Company; which tripled its annual volume of business in the five years between 1935 and 1940, and the Farm Bureau Mutual Fire Insurance Company. The three companies reported total income in the form of premiums of almost \$10,000,000 in the calendar year 1941.

Substantial portions of the reserves of these insurance companies are invested in U.S. Government bonds. First mortgage loans on farms and urban homes are made to individuals at very favorable rates of interest.

In 1941 the Farm Bureau Life Insurance Company pioneered with the offering of a new \$500 renewable and convertible term contract at very low premium cost. The total amount of protection sold to policyholders in 1941 on this contract alone was \$3,754,000. New offerings in 1941 also included group life, group hospital, and compensation for surgical

expenses as a supplement to hospital insurance, and other forms.

The latest annual report of the Insurance Services stresses the point that strength cannot be measured by the figures on a financial statement. The strength of the enterprises is accounted for by people working together wholeheartedly. Co-op insurance is described as "democracy in business through voluntary self-help and active user-owner participation." It is also contended that no cooperative service has in it more opportunities than user-controlled insurance—"none can carry us faster or more certainly toward the complete achievement of the ultimate goal."

An organization in the Northwest is described by Wallace J. Campbell in *Here Is Tomorrow*, as follows:

Cooperatives in the States of Minnesota and Wisconsin have an unusual insurance setup. In order to coordinate the cooperative insurance activities of the two states. Cooperative Insurance Services has been organized as a central body with two primary purposes: (1) to assist in the financing and the ultimate merging of existing insurance cooperatives of the two states in so far as the insurance laws permit; and (2) to act as a central acquisition agency for new business for the various insurance cooperatives participating. At present three companies are participating—the Cooperators' Life Association (Minneapolis), Cooperators' Life Mutual (Wisconsin), and Cooperative Insurance Mutual (Wisconsin Automobile Insurance Company). Others have been invited to join. Midland Cooperative Wholesale, Central Cooperative Wholesale, and their member cooperatives are behind this unique move to develop a coordinated insurance service for the co-operators of the two states.

Another growing organization is the American Farmers' Mutual, an auto insurance co-op serving members in Minnesota.

The Workmen's Mutual Fire Insurance Society was formed in 1872 as a "cooperative household" organization offering fire

indemnity at actual cost. Incorporated in New York, the society now has ninety branches throughout the United States, assets of over \$1,000,000, and insurance in force of over \$85,000,000. Every policyholder becomes a member and has a vote. It claims that its actual costs for members are lower rates than those of any other fire insurance company.

Mutual insurance companies in which members of the Grange have had a special interest include the Farmers' Automobile Inter-Insurance Exchange, Los Angeles, California, doing business west of the Mississippi River, which reported 318,847 policies in force in 1942, total assets of \$8,727,490 and surplus of \$2,800,000; and the National Grange Mutual Liability Company, Keene, New Hampshire, which had 80,000 policyholders in 1942, assets of \$3,000,000 and surplus of \$500,000, and was writing business in nineteen states. Among the well-supported state insurance organizations was Great States Life Insurance Company, a mutual with headquarters at Bloomington, Illinois.

At the 1942 congress of the Cooperative League, a Committee on National Cooperative Insurance was set up.

FARM CREDIT AGENCIES

During the past twenty-five years a complete public credit system for agriculture, administered by the Farm Credit Administration of the Department of Agriculture, has been created which functions largely through local associations. This has been a unique governmental enterprise that has worked out a method of functioning that may possibly be of value in other situations. It has not functioned, as was originally expected, due largely to the tremendous readjustments that were necessary for farmers to make during the difficult 1930's. But the whole development deserves attention because of the relationships involved between cooperative and governmental institutions.

For the most part, the federal credit agencies do not deal with individuals directly. Rather, loans are generally made by the public agencies to cooperative associations. In turn, the 4,500 farm loan associations have loaned funds to over 600,000 individuals on long-term mortgages. The mortgage loans are made by the Federal Land Banks, established in 1916, which secure their funds by sales of bonds to investors. The 530 production credit associations have made short-term, usually one-year, loans to over 250,000 members. Government banks for cooperatives also make certain types of credit, mainly "facility loans," available to farmers' cooperatives. (For a fuller description see Chapter 10, "Public Credit.")

The plan was that the local farm loan associations would own and control the Land Banks. It has not yet worked out that way. The whole development has caused one of the most acute controversies over voluntary vs. government control that has ever raged among farmers.

A DECLARATION OF INDEPENDENCE

One conspicuous result of this situation has been that the energetic group of farmers in the Ohio Farm Bureau have moved to try to become independent of the public credit system, and have resolved to build up a wholly voluntary one that they do own and control. The Ohio Farm Bureau has now built up three types of agencies through which the individual may invest his savings and be assured that they are used to further cooperative projects. Short-term funds may be invested by individuals in Investment Certificates issued by the Farm Bureau Agricultural Credit Corporation with maturity of one or more years, in amounts of \$50 and multiples thereof. Interest rates vary from $1\frac{1}{2}$ per cent on an investment of \$50 for one year to 3 per cent on \$150 or more for two years or more. The

Credit Corporation in turn loans the funds to farmers for current operating expenses.

Ohio farmers may also invest their savings in the common and preferred stocks of their own business organizations, for example, the state-wide Farm Bureau Cooperative Association, mainly a purchasing agency, and in the County Cooperative Associations. Also, they have available the three insurance companies previously mentioned.

A NATIONAL FINANCE PLAN

Plans are maturing, as this is written, for the establishment of a new National Cooperative Finance Association. At the biennial congress of the Cooperative League held at Minneapolis in 1942, Perry L. Green, president of the Ohio Farm Bureau, stated the case for a comprehensive national co-op finance plan as follows: "There is no assurance that the cooperative movement . . . can retain its strength and future influence without . . . supporting and federating its own credit and monetary agencies." Thereupon, the congress approved the organization of a National Cooperative Finance Association, the membership at the beginning to be composed of the co-operatives constituent to the Cooperative League. "The National Association shall be so organized as to act as a general clearing house to serve the financial needs of its members as may be deemed advisable. The rapidly developing cooperative food store associations may at the outset make use of such an association. Its capital structure should be such as to permit it to own stock in local banks or credit associations and provide general financial advice to them and its members."

General promotion of credit unions is to be continued and members of cooperative associations are urged to become members of credit unions. Every cooperative wholesale shall promote the ownership of banks, and regional credit associations which

shall function in the same manner regionally as the national association. The finance associations should then organize a central cooperative bank "to act as a general clearing house" to serve the needs of all cooperatives on a national and international basis. It is also declared that the cooperative insurance services serving individuals and associations should be federated nationally.

Very significant in this connection is the fact that three local banks of deposit are now controlled by cooperative associations. They are located at Superior, Wisconsin; Beech Grove, near Indianapolis, Indiana; and Columbus, Ohio. Also, in Canada, the Saskatchewan Cooperative Credit Society, organized in 1941 by special act of the legislature, functions as a banking agency for local cooperative organizations and credit unions. The 1942 report revealed that thirty-one co-ops and eighteen credit unions were members, with numerous applications on hand from others. The Credit Society has power to receive deposits from the local organizations and to loan money to them. This development is widely regarded as a forward step which may soon be taken in the United States.

PART II: PRODUCERS' COOPERATION

Chapter 3

LABOR UNIONS

It is not whence a man draws his pay which measures his welfare, but where he spends his money.¹

—SIDNEY A. REEVE

THERE was once a factory owner much opposed to labor unions. He was incensed when he learned that the workers in the plant were organizing. Then he decided to study the labor movement, and to become fully acquainted with the situation of the persons he employed. The result of his reading and his personal contacts was the judgment that, for the workers, unions were a necessity. In a large industrial nation, organized relationships between labor and management were inevitable, he concluded.

When he had come to this conclusion for himself, he saw the other management-labor problems in clearer perspective than before. He still had his difficulties, and the workers had theirs, but they never again loomed so large. This is probably no isolated illustration, but an indication of a definite trend. The "mental climate" of large sections of the American public has changed with regard to labor organization. This has resulted in governmental policies that have encouraged the growth of organized labor, from about 3,000,000 members in 1933 to over 11,000,000 in 1942.

RAPID GROWTH

Many unions "mushroomed" during the thirties, from a few workers to hundreds of thousands. This process of quick growth

¹ *Modern Economic Tendencies*, New York: E. P. Dutton & Company, Inc., 1921.

was often painful, to workers, management, owners and the body politic. But with it all, labor was learning by doing and officers of unions had acquired valuable experience the hard way, when war came to America. The effectiveness of collective bargaining may be illustrated by the following figures: Average weekly earnings of workers in manufacturing industries advanced from \$25.50 in February, 1940, to \$39.54 in August, 1942, an increase of over 50 per cent, according to the reports of the U. S. Bureau of Labor Statistics. Average hours worked weekly in manufacturing industries were reported to be 37.3 in February, 1940, and 42.8 in August, 1942. The cost of living generally advanced about 20 per cent during about the same period, although the costs of foods alone in large cities advanced about 35 per cent between August, 1939, when the European war broke out, and August, 1942. Collective bargaining had influenced wages and hours in a dramatic fashion, and organized labor had acquired powers it never had before in our economy at large and in the government.

ORIGINS

Organized labor in the United States actually dates from the latter years of the eighteenth century. By 1825, the beginnings of organization had been made by associations of workers in various crafts, printers, spinners, and carpenters. Thus the craft unions were the first to be organized. The craft unions soon became national in scope. The American Federation of Labor, organized in 1881, had a most important role in this development. Craft unions were the logical type of organization in the early days of American industry, with its numerous relatively small plants that usually employed persons having just one skill. With the growth of very large industrial plants, however, many types of workers were brought together under one roof, including, of course, skilled and unskilled workers.

It was this development in industry that gave rise to the demands for the industrial type of union, open to all the workers of, for example, a steel plant or a large mine, etc. Another trend was very significant. Modern mass production has tended toward the employment of "machine tenders" rather than skillful craftsmen. Usually machine tenders can be trained in a very short time. Hence the industrial union evolved as a technique to include skilled and unskilled workers alike.

THE CRAFT UNIONS

Up until 1935, over one hundred national and international unions were affiliated with the American Federation of Labor. ("International" simply means that locals from Canada and the United States are included.) The scheme for federating organized labor included state federations of labor, and city groups usually known as central trades and labor councils. In 1936, the American Federation of Labor suspended ten unions, eight of which had participated in the Committee for Industrial Organization which met in 1935 for the purpose of stimulating the organization of the large numbers of workers in the mass production industries—steel, rubber, cement, automobiles, aluminum, chemicals, and others. It was the alleged failure of the craft unions to organize the new large typically American industries that had led to the separate efforts. In 1938 the A. F. of L. suspended nine more industrial unions. Meanwhile, the Committee for Industrial Organization had become the Congress of Industrial Organizations, retaining the now well-known initials of C. I. O.

THE INDUSTRIAL UNIONS

Among the industrial type of unions that initiated the C. I. O. were those among miners, clothing workers, textile workers, oil workers, cap and millinery workers. Later workers in glass,

automobile, rubber, iron, steel and tin industries joined. It should be noted that a number of industrial unions remained in the A. F. of L., and that since the split some craft unions have modified their membership requirements to admit all types of workers. The separatist effort had several important results. For one, it seems to have stimulated union activity and organization. Since 1936 unions of both types have grown. But it also caused much confusion, even among friends of organized labor, and gave rise to much public criticism of labor generally. It added to the difficulties of employers, who were besieged with conflicting claims of rival organizations. It complicated the task of the National Labor Relations Board, which was umpiring many elections, and trying to determine who really represented the workers, as well as trying to eliminate unfair labor practices among employers.

THE INDEPENDENTS

"Independent" developments in the labor movement fall roughly into two groups. First, there are operating divisions of the railroad workers, engineers, firemen, conductors and trainmen who are in separate brotherhoods of their own. (Craft workers such as machinists, and the organizations among sleeping car and dining car workers, and among railway clerks, belong to the A. F. of L.) Other "independents" now claim over a million members. In 1942 the Confederated Unions of America, "independent," was formed with forty unions having over three hundred thousand members.

Many of the present independents are an outgrowth of the movement begun after the First World War by employers to encourage employee representation plans. The initiative usually came from employers, and these plans were soon called "company unions," because of the direct influence of management upon them. Company unions are now generally "out of the

picture," since the National Labor Relations Act forbids employers to initiate, finance or dominate organizations of employees. Other independent efforts persist, however. Some of the newer independent unions have been formed by lawyers who have been attorneys for employing companies. Others have arisen out of the demands of workers themselves, some of whom do not wish affiliation with either the C. I. O. or the A. F. of L. The general opinion regarding the independent union is that its local character considerably limits its power and usefulness.²

HIGH LIGHTS OF A MOVEMENT

The recent Twentieth Century Fund survey, published under the title "How Collective Bargaining Works" reveals many other important aspects of this most extensive movement. The general curve of growth was steadily upward, between 1933 and 1942, but seven older unions lost membership, and in six of the older unions growth was relatively small. The really spectacular gains were in the previously unorganized, or practically unorganized, trades and industries. The United Steelworkers of America reported in 1941 a membership of 600,000 members, 400,000 of them in the basic iron and steel industry, which employs 500,000 persons eligible for membership in this union. Another "600,000 union" was the United Automobile, Aircraft and Agricultural Implement Workers. The United Electrical Radio and Machine Workers reported around 300,000 members. Also, several older unions grew by leaps and bounds between 1933 and 1942. The United Mine Workers' membership increased from 300,000 to 600,000, the Amalgamated Clothing Workers from 125,000 to 275,000 and the Brotherhood of Electrical Workers from 94,000 to 201,000. The

² For a more thorough discussion of organized labor, see *Do You Know Labor?* by James Myers, The John Day Company, New York, 1943.

Bakery Workers' 84,000 members in 1941 represented an increase of about 500 per cent over the number in 1933. The Teamsters, with 400,000 members, showed a sixfold increase.

With all the unusual growth since 1933, over 70 per cent of the wage and salary workers of the nation are not members of labor unions. Collective bargaining has thus far not been much practiced among the six and a half million employees in retail stores and wholesale trade, the four million in the "service" and financial types of employment, the four million government employees, the three million farm laborers, or the large numbers of domestic servants and the casual or migratory workers. There are also hundreds of thousands of workers in chemicals and textiles who are not organized.

RECENT BROAD TRENDS

The Twentieth Century Fund release also says:³ "The rise of industrial unionism . . . was partly, if not largely, responsible for the extension of collective bargaining. Today industrial or semi-industrial unions provide the dominant organizational and bargaining patterns." Also, there is a trend toward "industry-wide" collective bargaining. There is a strong "tendency for agreements to cover a wide geographical area." "Regional and national agreements . . . are found, for example, in stores, hosiery, coal, shipping, paper and pulp, clothing, glass containers and pottery." These have made for "standardization" on a national basis. Differences between regions are thus being reduced.

About one-third of the workers employed in ten leading American industries work under "closed shop" or "union shop" conditions. A "basic finding" of the Twentieth Century Fund survey is that:

Union status varies throughout American industry largely according

³ The quotations are from a statement to the press, and are used by permission.

to the length of time collective bargaining has been practiced in each industry. Union status takes one or more of the following forms, and it is important to keep the distinctions between these forms clearly in mind:

Closed Shop: Only union members can be hired and workers must remain union members to retain employment.

Union Shop: Nonmembers may be hired, but to retain employment must become union members after a certain period.

Preferential Shop: Union members are given preference in hiring or layoff, or both.

Maintenance of Membership Shop: No one is forced to join the union, but all present or future members must remain in good standing as a condition of employment.

Exclusive Bargaining Shop: The union is recognized as the exclusive bargaining agent for all employees, whether union members or not.

Bargaining for Members Only: The union is recognized as the bargaining agent only for its own members.

In ten of the largest out of some fifty industries . . . about 34 per cent . . . of the employees work in closed or union shops. According to the latest comparable figures, these ten industries employ nearly 6,000,000 workers (almost one-sixth of all wage earners in the country). Some 4,000,000 are union members, who comprise about 40 per cent. of the total union membership in the United States. None of these industries is *completely closed shop*, but this status is dominant in printing (245,000 employees; 140,000 union members); clothing (368,000 employees; 329,000 union members). It is common in boots and shoes (220,000 employees; 80,000 union members) and construction (almost 2,000,000 employees, and over 1,000,000 union members). The *union shop* prevails in the coal mining industry, covering nearly 100 per cent of all workers.

Exclusive bargaining rights prevail in the five remaining big industries which are covered by the survey. They are: automobiles (500,000 workers; more than 450,000 union members); rubber (120,000 workers; 64,000 union members); electrical manufacturing (400,000 workers; 218,000 union members); iron and steel (500,000 workers; 400,000 union members); and railroads (1,000,000 workers; 900,000 union members). It may be observed from these figures that closed and union shops prevail in industries where unionism has been long

accepted, such as printing, building construction and coal mining. Railways, another veteran among unionized industry, is, however, the outstanding exception. [In recent years the general trend among these unions has been to negotiate] initial agreements calling for bargaining for members only—and once this step has been gained to press for preferential, union and closed shops.

PROS AND CONS

Most unions seek closed, union or preferential shops, chiefly to strengthen the organization, prevent discrimination, aid in enforcement of standards and gain greater control over their membership. They hold that since all employees share benefits won by collective bargaining, all should contribute. They also hold that closed shops make unions more responsible bargaining agents, eliminate friction between union and nonunion employees, and protect both employers and recognized unions against rival unions.

Employers opposed to closed and union shops maintain that their choice of workers is limited and that they are required to discharge those who have resigned or have been expelled from unions, yet whose work has been satisfactory. They further claim that some of their workers do not wish to join unions; and that since employers are forbidden by law to prevent their workers from joining unions, they should not be forced to compel workers to do so. Some employers hold that closed shops are in effect monopolies, whereas they themselves are forbidden by antitrust laws to engage in monopolistic practices.

An analysis of the attitude of government shows that federal statutes both uphold and outlaw the closed shop. The National Labor Relations Act (the Wagner Act) specifically allows agreements with closed or union shop clauses. The Railway Labor Act disallows the closed shop by forbidding the carriers to compel their employees to join unions. One state, Minnesota, forbids the closed shop. State courts have both upheld and outlawed strikes for the closed shop. Strikes for this purpose have been upheld by court decisions in California, Colorado, Connecticut, Florida, Idaho, Illinois, Maryland, Missouri, Montana, New Jersey, New York, Oklahoma, Rhode Island and Wisconsin. They have been declared illegal in courts of Delaware, Georgia, Maine, Massachusetts, Mississippi, New Hampshire, Oregon, Pennsylvania, Texas and Vermont.

THE SEARCH FOR SECURITY

Industrial workers are generally men and women "without property." They are often "the uprooted people," who have left the land and the agricultural villages for town and city life, or who have migrated from homes across the sea. They are people who are face to face with the great insecurity of modern industrial life. The human cost of rapid mechanization, for example, has often been paid by the industrial workers and their families.

Labor unions that they themselves "own and control" are one of these peoples' answers to their problem of life without property and security. Generally speaking, they have created responsible organizations. One cannot learn much of the story of American labor through the newspaper press, because our press has the unfortunate tradition and practice of reporting "trouble," not only about labor and management, but also about most other aspects of the community. Peoples' organizations have the imperfections of all democratic efforts, political and otherwise. The sins of American politics, for example, have been grievous, yet when one looks at most nations of the world, one may discern "the promise of American politics." The "early years" are always the hardest in labor-management relations. And, as we have seen, the unions in many industries are still in those years. Organized labor has been, in the minds of many fair-minded observers, "the major expression of the democratic principle in industry."

THE CONSUMER INTEREST

Consumers' interest in the costs of our complicated distribution system has naturally been drawn to some socially irresponsible practices of unionism. The ablest critic of these practices as they affect the consumer and the farmer is probably Thur-

man Arnold,⁴ Assistant Attorney General of the United States. In *Reader's Digest* for June, 1941, Mr. Arnold made the following statements:

The labor problem I am most worried about doesn't get headlines and the public does not know what is happening. That is why it is the most dangerous of all.

It is the exploitation of low-income consumers, the destruction of small independent businesses and the levying of tribute upon the workmen themselves by a few powerful strategically placed unions. These are the unions which control the lines of communication between producers and consumers. They have erected toll bridges over which the necessities of life must pass. Usually without strikes, they can tell consumers what and from whom they can buy and how they must pay. The consumers are victims of a hidden holdup. . . .

This sort of thing is not democracy. It must not be allowed to spread.

Don't get this problem mixed up with the right of labor to strike for any legitimate purpose—better wages, hours, safety conditions, and so on. . . . There is no benefit in such tactics [as mentioned in the paragraphs above] for labor as a whole.

But there is need for a policeman to prevent a few unions in strategic positions from imposing arbitrary restraints on the delivery and use of the essentials of daily living. . . .

Congress can and should amend the Sherman Act so that labor unions may not restrain interstate commerce except for legitimate labor aims. That simple amendment would demolish the union toll bridges that now victimize consumers, small business men and workers alike.

COLLECTIVE BUYING

The labor movement, concentrating on collective bargaining, has also shown more than a "budding" interest in collective buying. Without an interest in collective buying, it has been said labor is simply bargaining with one of its two arms. The Rochdale principles were "a working class discovery." Is

⁴As this book was in press Mr. Arnold was appointed to the federal bench.

collective buying needed as well as collective bargaining? How can workers influence the prices they pay for goods and services, as well as wages? These questions are receiving increasing recognition.

In Maynard, Massachusetts, often hailed as one of our co-op towns, a group of workers in the woolen mills organized in 1907 what has become one of the most stable consumers' cooperatives in the nation. Recently this co-op had capital of \$22,000 and reserves of \$48,000. In a recent year, the surplus of the enterprise amounted to \$25,000, which was distributed to the members to the degree to which they had used the co-op. If the enterprise had been a corporation, the \$25,000 would have been distributed solely to the owners of the capital of \$22,000.

Another distinctly workers' consumers cooperative is that at Dillonvale, Ohio, where the New Cooperative Company has six branches and has become the largest business in the city. It was started by a group of miners. The annual volume of business is now over \$650,000. Farmers, miners and townspeople are among the members. The co-op claims that in thirty years it has kept within its own community the large sum of over \$700,000, which would under ordinary conditions of business have been drained away in the form of profits.

A relatively new co-op started on labor initiative is that at Racine, Wisconsin, begun in 1935, by a labor organizer who became interested in the consumers' movement while buying gasoline through a farmers' cooperative association. An oil co-op was started which did a business of almost \$40,000 in the first nine months. The Racine Consumers' Cooperative now operates five gas stations, a grocery store, a coalyard, a clothing store and an insurance department. There is also a credit union organized among the members. All employees for whom

unions are available are members of their respective labor organizations.

In England, it is reported, most employees of consumer cooperative associations carry union cards. In the United States, co-op employees are increasingly organizing. In 1938, the Cooperative League at its eleventh biennial congress unanimously adopted a declaration of policy upholding the right of labor to collective bargaining and recognizing the values to be obtained through promotion of consumers' co-operatives by workers as consumers. Recently in Washington, D. C., the consumer cooperative organizations signed collective bargaining agreements with their employees, which declare explicitly the common interests of employer and employee. The preambles to the contracts, made with both A. F. of L. and C. I. O. unions, refer to and quote resolutions of these bodies in favor of consumer cooperation. Cooperatives throughout the nation are also making increasing use of the union label on products and supplies they purchase. This is particularly noticeable in printing. The number of products turned out in American industry carrying the union label has also been increasing. Also of special interest is a contract recently signed by Consumers' Cooperative Association, North Kansas City, Missouri, and the employees in its cannery at Scotts Bluff, Nebraska, in which the union members not only endorse consumer cooperation but also promise, as soon as practical, to become members of cooperatives.

Chapter 4

COOPERATIVE MARKETING

Consumption is the sole end and purpose of production, the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.

—ADAM SMITH

A FEW years ago an enterprising New York Reporter noticed good publicity about cooperatives and decided to learn the number of members in these associations in the city of over seven million inhabitants. His quest yielded a total of about ten thousand persons actually on the rolls of the cooperatives of the city of New York. Many other cities do much better, of course, but the contrast with the situation in farm communities was very striking. For at that very time more than one third of the farmers of the nation were members of at least one cooperative.

DOTTED COOPERATIVE LINES

Farm people have actually signed the cooperative dotted line. Farmers are known for their independence. But they have demonstrated most widely in this country—and others—the way whereby independent persons can engage in fruitful association with one another. It is time to stop calling farmers individualists. Many of them know how free persons can engage in constructive cooperation, out of their own long experience.

✓ By far the largest cooperative enterprises in the nation, and among farmers, are those organized for marketing farm products. The marketing movement was undoubtedly the

largest single development among farm people during the 1920's. In the 1941 marketing season there were 7,942 farm marketing cooperatives, with 2,420,000 members, and a volume of business valued at \$1,900,000,000, which was equivalent to about 20 per cent of the total value of farm products sold. Certain marketing associations also do purchasing for their members, but it is a relatively minor portion of their business. ✓

A NATIONAL COUNCIL

✓ Many of the local marketing cooperatives are nationally federated, or are associated with regional or national organizations and sales agencies that represent the local producers in the large terminal markets of the cities. Much of the activity of the central agencies of the marketing cooperatives is necessarily carried on in cities. Many of the national federations of locals and the regional associations of marketing cooperatives are among the sixty-four organizations that are members of the National Council of Farmers' Cooperatives, Washington, which was organized in 1929. This council includes twelve regional purchasing agencies handling farm supplies, and, as associated members, thirteen state cooperative councils. ✓

In 1942, the council reported the largest membership in its history. An incomplete roll of members published in the *Blue Book* of the organization in 1942, containing only the larger units operating in three or more states, and a plotting of members on a map of the United States, showed that the constituent cooperatives of the council have memberships in all but a small proportion of the counties of the nation. The constituency is well spread over all states with the sole exception of the state of Mississippi. "A complete list of all the separately incorporated cooperatives affiliated with the council would include some 4,500 associations, with a gross mem-

bership and patronage of 2,000,000 persons," including the purchasing associations. On the executive committee of eleven, one person represents the purchasing division of the council. On the board of directors consisting of forty-eight persons, four represent the purchasing division. The council has generally been known as the spokesman of the farm marketing movement. During recent years there has been notable cooperation with the council of dairy cooperatives, the National Cooperative Milk Producers' Federation.

MARKETING LEADERS ON PUBLIC ISSUES

The recent opinions of the National Council of Farmer Cooperatives on public questions are revealed in the resolutions adopted at the fourteenth annual meeting in 1942, and previously, as printed in the 1942 *Blue Book*. The council recognized that "in our ever-expanding civilization there must be of necessity an ever-increasing number of administrative agencies." But it further observes that "there is grave danger that free enterprise may be strangled by bureaucracies . . . The people . . . should be vigilant to see that these administrative agencies do not become the masters instead of the servants of the people." The council asked that agricultural cooperatives be in no way weakened during the war effort by governmental regulation, and pledged full support to the government for the winning of the war. It urged cooperatives to take special steps to build up adequate reserves during the war period, as a cushion for postwar adjustments. With regard to labor unions, the council opposed the closed shop, the compulsory hiring hall, and the use of the "secondary boycott" against innocent third parties, and felt that these issues should not be forced upon the public in a time of extremity.

The council asked that all agricultural labor be exempt from the provisions of the Social Security Act, the National Labor

Relations Act and the Fair Labor Standards Act. It requested that the Selective Service system class persons engaged in agriculture with "other defense" activities. The council opposed sale of government-owned commodities at less than ceiling prices, or at prices that would tend to lower the general prevailing price level of these farm commodities. It urged appropriate governmental efforts to avoid the inflation of land values, and advised farmers to use the relatively high war income for the reduction of debts.

The council demanded "for organized agriculture adequate representation on any commissions concerned with post-war planning, and also adequate representation at the peace table" It recommended that government projects devised to assist farmers "work wherever possible through farmers' cooperatives and also aim toward strengthening self-help and self-reliance"

The executive secretary, Ezra T. Benson, recorded in 1942 that on a majority of the projects of the council, there had been "unity of opinion and effort," with the National Grange and the American Farm Bureau Federation.

THE CASE FOR COOPERATIVE MARKETING

The case for cooperative marketing is fairly evident. The farm producer, going it alone, is apt to be helpless, or at least without any adequate guidance. Individual producers are not of themselves generally able to meet market conditions of grading and quality, in such a way as to enable them to be on equal terms with the distributors of farm products. Cooperative marketing thus introduces intelligent collective action into the distribution picture. It gives power to large numbers of producers on scattered farms. It enables farmers to secure the financing that is adequate for modern merchandising. Many farmers of long experience therefore say that individual mar-

keting has failed them, that cooperative marketing has become a necessity. It at least gives farm producers guidance and protection; it enables them to save marketing costs; it contributes toward efficient distribution and in the long run gives farmers more adequate rewards than isolated efforts, say the participators. ✓

Cooperative marketing rarely means direct marketing. It means the setting up of a marketing agency owned and controlled by farmers. It is a form of organization that enables large numbers of farmers to share the services of skilled marketers. The movement has educated many members in regard to the processes of commerce; it has greatly improved standards of production; it has developed leadership among farm people. But benefits are not obtained quickly. And every cooperative marketing association is limited by the peculiar conditions surrounding the sale of its products. Lately, of course, international conditions and governmental farm policies and practices have introduced new and important limitations.

NOTABLE BENEFITS

The most marked results have probably come in the marketing of specialties, e.g. citrous fruits, as compared with the handling of the more generally grown staples. ✓ When a very large proportion of a crop is handled by a cooperative, then shipments can be "regularized," advertising can be concentrated and total market situations somewhat controlled. ✓ But with competition keen between regions, under swift modern transportation, the marketers of most widely produced commodities have not been working under such favorable conditions.

The agricultural cooperative marketers have not attempted to introduce any new distinctive principles of economic reor-

ganization, such as is contemplated by the more elaborate plan of consumers' cooperations. Rather, cooperative marketing represents one of the most conspicuous adaptations of the cooperative principles worked out by the Rochdale Pioneers. Cooperative marketing tends to improve the economic position of the farm producer, and works toward justice in distribution.

PAGES FROM HISTORY

The origins of cooperative marketing in the United States can be found in the same period of 1810 to 1850, when such an earnest search was also going on in England for the consumers' cooperative principles. Apparently certain ideas were "struggling to be born" at about the same time. There is record of attempts at "associated or cooperative dairying" in Connecticut and New York about 1810. In primitive form, experiments in associated dairying cropped up in various regions of the United States between 1841 and 1851. There were several cooperative cheese factories in the state of New York in the early 1850's. Wisconsin and Illinois farmers got under way in the 1860's. By 1867, more than four hundred co-ops among farmers were processing and marketing dairy products. In 1865, the Michigan legislature passed what is believed to be the first law recognizing cooperative buying and selling.

The National Grange, Patrons of Husbandry, organized in Washington in 1867, opened the way for wide expansion of farmers' cooperation, and gave the movement a stimulus that extends into the twentieth century. Assistance has also been given by the other "general" farm organizations, particularly the Farmers' Educational and Cooperative Union, organized in Texas in 1901, and the American Farm Bureau Federation started in Chicago in 1919. (The Farmers' Alliance, the Agricultural Wheel, the Ancient Order of Gleaners, and other national farm organizations that have passed from our scene,

also lent helping hands.) By 1890 there were one thousand active farmers' cooperative organizations.

A NATIONAL MOVEMENT

Soon the movement spread to all regions and nearly all kinds of products. The number of active farmers' marketing cooperatives increased steadily from 1,167 associations in 1900 to 12,473 organizations in 1922, the peak year for number of associations. The trend since 1922 has been toward fewer associations, usually serving larger memberships and constituencies. The estimated membership reached its peak in the marketing season of 1935-1936, when 2,710,000 persons were enrolled. Dollar volume reached its peak in the 1929-1930 season, with sales of \$2,310,000,000.

The Farm Credit Administration, Cooperative Research and Service Division, has records of 26,192 marketing and purchasing associations among farmers from 1863 down to December 31, 1939, of which 81.5 per cent were primarily for marketing. Nearly 57 per cent of these 26,192 associations had discontinued operations by December 31, 1939. It is estimated by the division, that perhaps ten or fifteen thousand other associations have been formed by farmers, but have disappeared without leaving even a trace of their names. Discontinuances recorded per 100 active associations ranged from 3.5 per cent for the year 1921 to 6.7 per cent for the year 1930, according to the same study. The average yearly rate 1920-1939 was 4.9 per cent. Cooperatives are really long-lived, when compared with retail and manufacturing enterprises. In 1920, 1,534 marketing cooperatives were organized, the largest figure on record for any one year. In no year since 1925 have as many as 500 marketing associations been formed.

A most significant trend since 1900 is the steady increase in the proportion of the purchasing associations when com-

pared with the total of all farmer cooperatives. Considering recent years only, in 1926 the number of purchasing associations was 11.3 per cent of the total of farm co-ops for buying and selling, while in 1941, the proportion was 25.1 per cent. The proportion of the total membership for the purchasing associations was 9.1 in 1926, and 28.8 per cent in 1941.

LOCALISM—STRENGTH AND WEAKNESS

Localism has been both a source of strength and of weakness in the farmers' marketing movement. Numerous small organizations each with about forty members are usually deeply rooted in the social life of the community. The manager is generally a farmer, or a former farmer. The success has often been due to the social and spiritual ties of the members. However, the economic advantages of purely local associations have been few. Volume per association is frequently too small to make an impression on large urban markets. Managers often lack modern training. Organization has often been on a loose, insecure basis. The great need is for the development of regional and national agencies and federations that maintain a balance between centralized and local controls.

Other significant forms of farmers' cooperation in production include mutual irrigation companies numbering 2,442, with 177,392 members, in 1936; 1,228 dairy herd improvement associations with 25,947 members in 1938; 228 sire ownership associations with 3,737 members in 1938.

CREDIT—PURCHASING—SELLING

✓ Cooperative marketing is also practiced among fishermen, and about fifty of these associations are reported on our coasts. A recent extension project of the Eastern Cooperative League, directed by Mary E. Arnold, has to do with organization for

credit, marketing and purchasing by lobster fishermen on the coast of Maine. Following are a very few words culled from Report No. 9 of May, 1942: ✓

Eight little villages on the coast of Maine have eight little credit unions run by lobster fishermen. Eight little villages making the first step. Capital in their own hands, under their own control. They meet every week in small groups. Unaccustomed to joint action, got to get the habit, got to get the technique. Everybody brings his quarter. Might buy a hundred ton of warp together next spring, twelve tons to a village. Could buy all our gear together. And warp ain't the only thing got to get going. After cooperative buying, should come cooperative marketing. Men with their own capital. Lobstermen organized. Organized selling. What could they not do along the coast of Maine? Cooperative credit.

Obviously these three processes are all interrelated. Among "small, isolated groups of primary producers" we see easily the need for all three, and for carefully considering them together. In Nova Scotia, now hailed as a land of cooperatives, there has been a conscious development of all three types, in close relation to one another.

Chapter 5

PRODUCTIVE HOMESTEADS

We are consumers by nature and producers by necessity.¹

—HORACE M. KALLEN

THE farm homestead has been described as the greatest institution in the United States, and the farm family has been called the greatest gift of God to the human race. The family type of farm was the ideal of the founding fathers. They spoke of a nation of "freeholders," a term we no longer use as much as they did. They envisaged independent farm operators as the basis of the new nation. Of all the founders, Thomas Jefferson was most devoted to the cultivators of the earth. He called them the most valuable citizens.

VANISHING HOMESTEADS

But a recent popular pamphlet by Edgar F. Schmiedeler bears the title of "Vanishing Homesteads."² Between 1929 and 1939, according to the decennial censuses of agriculture, the percentages of very large farms and very small farms strikingly increased, while the middle-sized places, the typical American farm homesteads, slightly decreased. The "Cats," meaning the caterpillar tractors, break down fences that once divided adjoining farms, and create great factories in the fields. They do this not only in the old home of the "Okies," but also in Iowa and the old settled counties of Pennsylvania. Mechanization has recently stimulated large-scale agriculture.

Near many large cities another trend toward large numbers

¹ *The Decline and Rise of the Consumer*, New York: D. Appleton-Century Company, Inc., 1936.

² Paulist Press, New York, 1941.

of new small farms is seen. Here people are buying small tracts of ten acres, or twenty or forty. "Why do you buy tens and twenties," they are asked, "these aren't large enough for a living." "We know that," they reply "but we kind of figure that they're large enough so that we won't starve."

One of the most startling of all the numerous farm statistics was this, based on the census of 1930: "About fifty per cent of our farms have been producing about ninety per cent of the value of products going to market." This can have only one meaning for the other 50 per cent of the farms that have yielded only 10 per cent of the marketable produce. There are large numbers of small and low-income farms. One estimate places their number at about 2,700,000 to 3,000,000 out of our more than 6,000,000 producing units. One of the most significant of the early revelations of the 1940 census of agriculture (not completed at this writing) was that more than a million and a quarter farms each produced less than \$250 worth of marketable products.

FARM OWNERSHIP SLIPPING

Land has been slipping out of the hands of farm owners. The trends of American life have made farm tenants in large numbers, ever since 1880. In that year, about one-fourth of the farm operators were tenants. By 1935, the proportion was 42.1 per cent. The 1940 census showed a decrease in farm tenancy to 38.7 per cent of all farms operated. But this was no cause for rejoicing. It was due largely to the fact that 31 per cent of the cotton sharecroppers of 1930 were no longer sharecroppers in 1940. They had become laborers, or farm migrants, or were on W. P. A. rolls in towns, and were no longer counted among the tenants. The unfavorable conditions of the Cotton Belt had simply abolished enough farms to change the national trend of tenancy.

More than 50 per cent of the desirable farm land is now believed to be operated by tenants. Also most significant are the figures on the owners' equity in farm property. In 1890, 41 per cent of the total value of farm property belonged to "someone else," than the operator, i.e. landlords and mortgage holders. By 1935, this percentage stood at 61 per cent. Even through the great boom periods, farmers lost their equity in the land. Growth of tenancy is by no means uniform. Tenancy has decreased in certain northeastern states. It has increased rapidly in the South, the Middle West and the Great Plains.

WHAT IS THE PROSPECT?

What then is the prospect of these people on the homesteads, who have striven so hard to live the good life, even though the economic rewards have been moderate or low? What is to become of our rural neighborhoods, where independent people have been distinguished for their friendly, informal mutual aid? These people have, of all our people, best preserved family life. They have contributed not only food and fiber, but also good people in large numbers to towns and cities. They have taxed themselves almost to death to support district schools, which readily sent many of their pupils out of their own communities. These rural homesteads have nurtured many of the great conservers of the race.

Of primary importance is the fact that rural opinion still rejects tenancy. It is also often unhappy about government programs that restrict production. Rural people still generally believe in the farm ownership system. They hold to the classical liberal idea of private property. This means that they are essentially decentralists. For, they hold, if private property is to function in the interest of the general welfare, it must be widely distributed among the people and it must be used under

the direct administration of the owner himself. Therefore our farm people are generally suspicious of concentration of property and control over property, and they most decidedly do not view with enthusiasm the growth of great business corporations which tends to separate ownership from management or control.

ORGANIZED AGRICULTURE

✓ Farm people are not unorganized. Farmers have considerable political power, and organized agriculture has maintained lobbies that compared favorably with other strong lobbies. The general farm organizations, the American Farm Bureau Federation, the National Granges, and the Farmers' Educational and Cooperative Union, together formally represent only about one-third of the farmers of the nation. The rest are not "joiners." The Farmers' Union is much smaller than the Farm Bureau or the Grange, and it especially speaks for the tenant and the low-income group. The National Council of Farmer Cooperatives often finds common ground with the Grange and Farm Bureaus. The dairy cooperatives, through the National Cooperative Milk Producers Federation, have also maintained legislative programs. Thus well over half of our farmers are in "organized agriculture." ✓

The various segments of the farm lobby do not always see eye to eye. Disagreements between Grange and Farm Bureau have occurred in the past. But when these two do see eye to eye with the farmer co-ops, large numbers of the members of Congress are sure to listen. There has been a loosely organized farm bloc which has fairly regularly responded to the demand of the bargainers in the farm lobbies. Organized agriculture has supported notable governmental farm programs that have made for a vigorous and comprehensive national farm policy, particularly since 1932. And that since 1932 has been built

upon earlier developments that date from the administration of Abraham Lincoln, who had the distinction of signing the Homestead Act, the one creating the system of state colleges of agriculture, and the one starting the agency that is now the Department of Agriculture.

Farm people have thus in large numbers demanded regulation, guidance, services and leadership. They have called upon government for "parity," which means in general the purchasing power of the years 1909-1914. This has been called the goal above all other goals. (These developments are further described in Part IV, which deals with "Public Cooperation" on a broad scale.) They have also, as we have seen in chapters 1, 2 and 4, taken part in cooperative purchasing, marketing and credit. They have embraced both voluntary and governmental means of stabilizing prices, improving the economic and social conditions that have made them definitely a disadvantaged group in the population. With the growth of these institutions of the people, the national prospect for farm people changed for the better during the thirties, particularly for the more fortunate farmers, who entered the war period with a Congress favorable to a relatively high farm price level. But shortages of labor led to loud complaints among farmers that the war administration was in favor of more generous financial rewards for labor and manufacturing than for agriculture.

REHABILITATION OF LOWER INCOME FARMERS

But what of the 2,700,000 low-income farmers? Congress is evidently much more interested in organized agriculture, speaking for the more fortunate farmers, than it is in unorganized agriculture, the poor and inarticulate. The chief spokesman of this latter group has been the Farmers' Union, and their chief helper has been the Farm Security Administration,

✓ which at one time or another, from 1934 to June 30, 1942, gave some form of guidance and assistance to over 1,500,000 farmers. The F.S.A. is really a large social enterprise, which has tried to bring to self-support and self-respect needy families on the land who have wanted to stay there. It has administered an experimental tenant-purchase program. It has developed large numbers of special types of small cooperatives among these low-income farmers, particularly to aid them in production, and has thus supervised an experiment in new ventures in rural cooperation on a grand scale. It has been responsible for programs of relief, rehabilitation and resettlement. It has organized new cooperative plans for providing medical care that have benefited over one hundred thousand families in over one thousand of the three thousand counties of the nation. Yet the cost of the entire rehabilitation program, even including losses on loans not likely to be repaid, has been only seventy-five dollars a year for each family aided.

Here are some of the high spots about this governmental agency that has encouraged much self-help and voluntary cooperation:

(Rehabilitation loans, averaging about \$500 per family, at 5 per cent interest, for a term of five years, were made to 939,000 farm families between 1934 and June 30, 1941.) A condition of the loans has been that borrowers follow a system of supervised home and farm practices. Considerable emphasis has been placed upon production for home use. In the fiscal year 1941 alone, loans were made to over 80,000 families, of whom 55,000 were tenants, in the sum of over \$100,000,000. During the same year F.S.A. received over \$50,000,000 in repayment of principal from previous borrowers. (The loans are made only to families who cannot borrow through other channels. The security has been solely the family's earnest intention to repay. These families have been called the coun-

try's worst credit risks, yet repayments have amounted to 90 per cent of the sums due. Delinquencies have naturally been highest in the drought areas. A survey made by F.S.A. in 1942 indicated that there were more than 640,000 families in need of rehabilitation, eligible for it, and unable to get it because funds were not available.

NEW KINDS OF CO-OPS

The F.S.A. program has resulted in the formation of over 17,000 small groups of farmers, who are buying and using cooperatively all kinds of farm equipment and jointly operating essential farm services. About 18 per cent of these groups own and operate tractors cooperatively. For example six farmers agree together to purchase a \$600 tractor. They each have an equal interest in one efficient machine. By this technique, machinery is used to serve the interests of the small holder of land, and not to destroy his independence. The most popular type of co-op is the sire ring. More than one-third of the neighborhood groups have been organized for the purpose of buying pure-bred sires. These small farmers have also used this method to purchase wagons, plows, harrows, binders, combines, rakes, hoes, thrashers, etc.

Where the existing cooperatives of a rural community are able to satisfy the need of F.S.A. borrowers they are encouraged to take part in them. Where this is not the case, F.S.A. has encouraged the formation of duly organized and incorporated cooperatives, and to the end of the fiscal year 1941, had made loans to 135 of these associations, which have operated creameries, home canning plants, warehouses and cold-storage lockers. Neighborhood buying clubs have also been organized to pool purchases on a simple procedure that enables the group to secure the advantage of quantity orders.

In a few local situations where land tenure is especially

unstable, F.S.A. borrowers have formed cooperatives that lease land and, in turn, sublease small tracts to individual operators of the family type of farm. This plan enables families to have a tenure of from five to ten years, instead of the annual shifting that often prevails. Better living conditions have resulted.)

Tenant purchase loans were made for a term of forty years at 3 per cent interest to 29,000 families between 1937 and the end of the fiscal year 1942. About twenty applications have been received for every loan made. An interesting feature is that a flexible repayment plan has been worked out, whereby the borrower makes larger repayments when his income is relatively good, and lower repayments when his income drops.

FORWARD TO NEW HOMESTEADS?

Some of this country's best known decentralists identified with the School of Living, at Suffern, New York hold up the productive home, utilizing all the new technology, as something to move forward to. The school was founded by Ralph Borsodi, and the present director is Ralph T. Templin. Mr. Borsodi and Msgr. L. G. Ligutti, secretary of the National Catholic Rural Life Conference, have united upon this definition: "A homestead is a home on a holding where the family, maintaining its natural bond of unity, lives and works. It is the direct source of the food, clothing and shelter of its members—the scene of integral living." Mr. Borsodi contends that the overwhelming number of products needed by a family can be efficiently made on a decentralized basis, in the home and in local industries. He thinks decentralization is the ideal, even in terms of efficiency. He contends that centralized mass production, as currently carried on, is not the most efficient and economical method, because of the heavy costs of distribution and transportation.

The School of Living, states Mr. Templin, both teaches and exemplifies the decentralist way of life. It trains individuals in the various phases of home production. It is also trying to assist people to cooperate in many areas of experience. A family should own privately as much property as it can use, and other property should be cooperatively owned, in Mr. Templin's opinion. Cooperative ownership of property outside the family is much to be preferred to state ownership. By recovering the true meaning of husbandry, he goes on, we can acquire a new attitude toward technical improvements, and make them serve the productive home rather than exploit the family.

Will we, in all our plans, all our associated efforts, decide to try to encourage the productive homestead for the farmer, and for many others too? Will our rural and our urban policies be such as to provide this kind of security for families? Will we move forward to new and more creative homesteads? Decisions of individuals, voluntary organizations, and governmental agencies in regard to these questions are "fundamentals."

PART III: THE PROFESSIONS AND BUSINESS

Chapter 6

PROFESSIONAL ORGANIZATION

The publicans and the harlots go into the Kingdom of God before you.

—MATT. 21:31

"WHAT help do you get from the different groups of people over your state, as you try to develop interest in cooperative organizations of all kinds?"

"Well, it's this way," the organizer replied, "farm people always listen and want to help. Then I get some assistance from a small number of Protestant ministers and Catholic priests, mostly those who don't have churches on prominent avenues. And we're getting breaks from teachers, again generally from those that aren't too prominent in their professions."

Of the forming of professional associations there is no end in the United States. But by far the large majority of the members of all these types of associations have given practically no attention to the building of a cooperative economy to replace the commercial civilization of the United States. The professional ideal calls upon the person to render his services and to receive compensation, for the purpose of advancing the public interest. Ideally, public interest and private interest are neatly blended or balanced in the professional codes. But in the United States, professional people have been so much under the corrupting influence of the low motives of a commercial civilization, that it has been said with much justification: "Every profession is a conspiracy against the laity."

WHAT ABOUT THE PROFESSIONAL IDEAL?

Indeed, long study of professional codes and of the organizations that have formulated them, leads this writer to the reluctant conclusion that most members of professions in the United States are interested mainly in a superficial whooping it up for the dear old profession in about the same spirit as that of alumni gatherings at universities. Professional advancement has been the order of the day—whether it was so stated or admitted, or not. Professional standards have been much thought of, but mainly in narrow individualistic terms. This must be said in spite of monumental studies and pronouncements that are in themselves admirable.

The professions have their codes, written under the influence of those sensitive to the public interest. But there are among officers of professional organizations widely varying ideas as to the function of a code. It is still often something that is passed at a meeting in the form of a resolution, or something that is nicely printed and hung in a neat frame in the office. There are also varying ideas about methods of making codes effective. And it is hard to secure evidences of results of codes, either in the new interests of the members or in new ventures of social organization.

AN APPRAISAL

After carefully studying twelve professional organizations, and keeping in touch with developments in them, this was the writer's conclusion: Half of the organizations only had made some progress in developing specific social standards, in setting up some means of control to encourage observance and to secure enforcement. Code making is still largely an attempt at setting up professional standards. It has not yet performed important social functions. It is an expression of vague ideal-

ism, not of the brass tacks of a strategy for the good society. The development of professional standards has not been approached with either social vision or thoroughness. Professional organizations, it must be noted, are often large national associations that provide only infrequent contacts among their members.

The minorities in the professions who have really labored to bring in the cooperative society have had to ignore the professional codes, or start special committees without reference to the codes, or in some instances actually oppose the codes. They must depart from the individualistic traditional standards because those who have gone before have not had the vision and the people have almost perished. In May, 1922, Charles Harris Whitaker, editor of the *Journal* of the American Institute of Architects, wrote an appraisal of professional life in the *Annals* of the American Academy of Political and Social Sciences, which this writer thinks is still in the main a fair statement in 1943.

COMMERCIALISM IN THE PROFESSIONS

Professional people regard commercialism as the antithesis of professionalism. Yet, contended Mr. Whitaker:

The epithet of commercialism, so contemptuously hurled, is no more than a quiet parry by which we prefer to condemn in another those things which we recognize, resent, and yet are unwilling to admit, in ourselves. The psychologists understand this process very well.

No man can today practice a profession without making terms with business or commerce, or without subjecting himself to the risk of financial ruin, should his conscience lead him to proclaim a faith or a believed truth not relished by the group which believe, and no doubt with deep sincerity among some, that the laws of business are immutable, and that the world must be governed by them

From this commercial spirit, no social institution, not the church, is exempt, wrote Mr. Whitaker, stating of the church

that some of its ministers have themselves so arraigned it. Our knowledge and skills have been "bought and paid for" by the labor and suffering of many persons throughout the ages. We are only trustees. We have first of all an obligation to the society from which come our knowledge and skills. Men at their best have always sought to give these to the world. They are for all men and not for a "chosen few. No persons have the right to sell knowledge for private gain to those who in turn use it for private gain—unless in that process they will truly benefit society as a whole, so wrote Mr. Whitaker.

HOW ADVANCE THE PUBLIC INTEREST?

That is the challenge being thrown down by our industrial machine, by our unworkable cities with their centralized populations, by our acres of slums, by our declining agriculture, and by the red gauntlet that is still dripping with the blood of our brothers [Mr. Whitaker continued].

We have sufficient knowledge and skill to change our environment at will, to restore the balance of industry and agriculture, to abolish the frightful waste of resources, including life, which now marks our helter skelter method of production and distribution as we pursue them under the lash of selfish interest.

Yet we are incapable of so applying that knowledge except in the scantiest degree. The engineer and the architect, for example, in serving the individual selfish interest of their clients, can give only such regard to the interest of the community as the pecuniary factors involving their client will permit. There is no one to represent the public interest, except to a meager degree under police regulation, a safeguard quite as honored in the breach as in the observance

The forces of selfish interest are everywhere too strong, and yet—the keepers of knowledge and skill hold the key to the main gate. That is their inescapable responsibility. It is their common problem, and yet their personal problem. Whether we contemplate the desolate moral waste inflicted upon society under the guise of law and its practice,

or the mass of show and tawdry productions devised with the help of chemists and engineers, or the monstrous urban agglomerations that the scramble for land values has produced with the help of architects and the building vocationalists, we surely cannot but agree that, as trustees of their inheritance, as guardians of the common social possession, the professions have failed lamentably.

But if history means anything, it means that no civilization has a chance to survive except as the forces of knowledge and skill can remain socially victorious over selfish interest; except as all vocations rest upon the basis of that freedom which not only ennobles, but inspires men to put the honor of their calling above the reach of client, corporation, or government—which means, does it not, above the reach of their own weaknesses.

The lines of 1922 need to be read, of course, in the light of the social experience of two succeeding decades. Such advances as have been made in dealing with critical social situations have been largely through an extension of government agencies, and through the efforts of voluntary organizations, as both are described in these chapters.

RECOGNIZING "NEW CODES"

And how can the professional people of today, who wish to break through the crusts of tradition, best place the honor of their calling above the reach of their own weaknesses? By imposing "new codes" upon themselves through the creation of influential democratic economic organizations and agencies—voluntary and governmental—that is one answer. And it sums up the message of this book to the professions.

The National Education Association appointed a Committee on Cooperatives in 1937. It has made annual reports that are clear studies of cooperative developments, and also plain endorsements of the cooperative techniques. The educators on this committee have done much more than call attention to these economic movements. They have formulated useful statements on the relation of a profession to cooperative insti-

tutions. Thus they provide guidance to those entering the profession. In 1941, over 270 of the more than 10,000 credit unions, were classified as "fraternal" and "professional." These were mainly among teachers. In many cities, the teachers of a school system have demonstrated their interest and ability by administering large and successful "cooperative banks."

ACTIVITIES OF RELIGIOUS LEADERS

In 1929, The National Catholic Welfare Conference set up a Parish Credit Union Committee, which stimulated priests and lay leaders to organize many of the 288 parish credit unions formed in Roman Catholic parishes by 1941. The National Catholic Rural Life Conference has actively encouraged not only credit unions, but also cooperatives for purchasing and marketing on the Rochdale principles. Numerous Catholic groups have studied cooperative movements.

The Federal Council of the Churches of Christ in America appointed a committee on The Church and Cooperatives in 1937. It has urged its constituency to study the cooperative movements, by means of national and regional conferences, and an extensive publication program. There were sixty-eight credit unions within local Protestant churches in 1941. There were also twenty-two in Jewish congregations. Cooperative leaders say that church groups of all faiths have formed the nuclei of many of the new co-ops formed within the past six years. Some of the ablest statements on the values in the economic cooperative movement have come from clergymen as individuals, and also in the form of official church statements—Jewish, Catholic and Protestant.

TRADE UNIONS

In some professions, considerable numbers of persons have identified themselves with the labor movement by forming unions. The American Federation of Teachers, A. F. of L.,

reported 26,700 members in 1941. The largest trade union with social workers as members is reported to be the State, County and Municipal Workers of America, C.I.O., which reported 14,735 members in public social work agencies in thirty-nine locals in twenty-six cities in 1941. Others than social workers also belong to this union. The Associated Actors and Artists, reported 14,800 members in 1941, the American Federation of Musicians, both A. F. of L., 100,000. The American Newspaper Guild, C.I.O., reported 17,000 members, including 40 per cent of the Editorial employees on newspapers, and also large numbers of workers in the commercial departments. The United Office and Professional Workers, C.I.O., reported 30,000 members, including some insurance agents.

THE MEDICAL SITUATION

In probably the most anomalous position of all—in a time of social crisis—and so recognized by many physicians themselves—has been the medical profession. The outstanding problem before the profession evidently related to “distribution.” In this respect the medical profession shares a problem with the rest of society. It is one of finding the ways whereby the people may be provided with adequate care, and physicians fairly compensated for the services they render to society. The people are demanding adequate medical care. This means that others than doctors are going to have a voice in determining how that medical care shall be distributed. Yet the overwhelming majority of the profession, at least as voiced through its organized spokesmen, have resolutely taken the position that this care shall be provided only by means of the private practitioner. The Supreme Court of the United States has recently affirmed a conviction of the Medical Society of the District of Columbia and the American Medical Association

for restraint of trade, in violation of the antitrust laws, because of activities hindering the development of Group Health Association, a co-op providing medical care in Washington, D. C. Fortunately a minority of ethical physicians of high standing have departed from the established rules, and from the views of the majority.

In the public interest, they have had to defy traditional interpretations of the codes of the fathers. Thirty medical co-ops have been formed, as previously noted. Much medical care is already publicly provided. More than 20 per cent of all medical care is paid for by governments in ten different ways. Already over 15 per cent of all physicians work for salaries, perhaps half of these in public agencies, many in administrative posts. There is a small group of physicians working for a complete system of state medicine, to be made available to any citizen at public expense. There is also agitation for a national system of health insurance, as is found in one form or another in other democratic countries. We could, in the immediate future, have private practice for those who want to pay for medical care, medical co-ops for the people with middle incomes, and state medicine for the low-income groups. We could have all these, and either voluntary health insurance or compulsory health insurance, as the people may decide. The members of the medical profession have the opportunity to work with the people.

WHAT OF THE ARTIST?

And what of the artist, known among all professions for his distinctly individual creations, in the cooperative economy? What of the artist-craftsmen who cling to handicraft? These people have produced goods that have been purchased mainly by people with surplus incomes. But if the surplus incomes

go into taxes what is the prospect for the artist and the independent craftsman?

We can at least refer to a few steps that may prove to be "straws in the wind." Organizations of the people may purchase art, rather than the chosen few. By this means the small savings of many people may fairly reward the artists. The directors' room of the Ohio Farm Bureau is lined with paintings, purchased collectively by the people. In Nashville, Indiana, is the headquarters of the Brown County Art Gallery Association, a nonprofit membership association formed in 1923, which is the sales agency for about thirty artists who live in the county. The Southern Highlanders Guild, Norris, Tennessee, is a nonprofit association that provides outlets for 300 affiliated local groups of producers of handicraft, and of individual craftsmen. In Nova Scotia efforts are being made to sell handicraft in cooperative stores.

When the Treasury Department of the United States set aside 1 per cent of the cost of public buildings for murals, the people provided useful employment for hundreds of artists, and enriched the lives of those who lived in hundreds of communities. The people's agency providing public work for unemployed persons, bearing the name of W.P.A., administered numerous projects for writers and painters. For a while it ran the ill-fated public theater, which provided so many venture-some plays and employed so many radical actors, that Congress put an end to it. But W.P.A. experience has been valuable. It had enabled all the people to meet the needs of many people, before it was ended in 1943.

WAYS OUT OF A DILEMMA

Many professional workers are now faced with a dilemma. They are restive under the compulsions of a commercial civilization—yet they do not clearly see their way out. They can

step out eventually if they will first reorient themselves and see the importance of the people's organizations and agencies, and identify themselves with the movements for a democratic economy as rapidly as possible. For voluntary cooperatives of all types, and the public agencies bringing in a cooperative economy, will both be employing professional people in larger and larger numbers, and will be creating a set of conditions under which the professional ideal may be more nearly attained than under current conditions.

Chapter 7

INDEPENDENT BUSINESS

When the cooperative movement develops in America, merchants and manufacturers will learn from farmers and workingmen how to help themselves by helping one another, and thus join in attaining the new freedom for all¹

—LOUIS D. BRANDEIS

AN independent businessman was driving his car over the countryside and opening his mind on the problems of business in the United States. "It's hard to tell," he said, "but the road of the small independent seems to be harder and harder. I don't know whether the chains in our town do more and more business or not, but it seems they do. Yet there are still a lot of independents around, and many of us think we can survive. How many kinds of business could a small independent operate successfully, anyway?"

This independent had in the course of a few chance remarks touched upon the concerns of many persons engaged in "free business," i.e., the business not included in the great chains or in the huge corporate manufacturing enterprises. Our discussion here must be limited to retail trade, and cooperative movements in which independent retailers participate.

WHAT ABOUT THE INDEPENDENTS?

Developments during the ten year period between 1929 and 1939 were summarized by the Bureau of the Census, in reporting on retail trade as part of the 1940 census, the latest comprehensive figures available. Sales of independent stores amounted to 74.7 per cent of the total sales of *all types* of

¹ *Other People's Money*, Philadelphia: J. B. Lippincott Company.

retail stores in 1939, compared with 73.3 per cent in 1935, and 77.6 per cent in 1929. "Chains" accounted for 21.7 per cent of the total retail sales in 1939, 23.3 per cent in 1935, and 20.3 per cent in 1929. "Other types" did 3.6 per cent of the business in 1939, 3.4 per cent in 1935, and 2.1 per cent in 1929. The average annual sales of local chain stores amounted to \$73,914, compared with \$19,333 for the average independent. "Chain operation is largely confined to kinds of business where large sales volume is capable of development," states a release of the Bureau of the Census, April, 1941.

This census release goes on to state that sales by independent grocery stores (without fresh meats) increased from 53.6 per cent of all sales by this type of store in 1929, and 61.3 in 1935, to 67 per cent in 1939. The sales of independent combination stores (groceries and meats) increased from 60.7 per cent of total sales in 1935 to 61.3 per cent in 1939, but they had 67.6 per cent of such business in 1929.

In the census, chain store figures included the sales of mail order houses handling general merchandise. Three or fewer stores under one ownership were classified as independent. "Other types" included utility-operated stores carrying appliances, state liquor stores, house to house selling agencies, and "farmer and consumer cooperative stores." The census figures for 1939 were generally regarded as indicative of the vitality of the independents. It would seem that they have at least been holding their own and in some types of operation they have gained since 1935.

CHARACTERISTICS OF INDEPENDENT BUSINESS

"Large scale retailing" was becoming more important, Dr. Willard Thorp wrote in Monograph 17 of the Temporary National Economic Committee on "Problems of Small Business," published in 1941. Yet he also indicated that chain stores

might have reached their zenith. The growth of chains in terms of new units seems to have slowed down, and the growth of independent retailers seems to be "on the mend again." Dr. Thorp also wrote that cooperative buying by retailers, described later in this chapter, was one of the most important factors promoting the success of independents.

The "stability of mortality" of retail business ventures in the United States was graphically described by John H. Cover in the same monograph. About seven of each ten new grocery stores opening in a given year will survive into their second year. Only four of the ten may expect to celebrate their fourth birthday in business. Of those surviving two years, two-thirds will span a four-year period. One out of every hundred will live to the age of thirty-five years. In the Middle West, says Dr. Cover, the average life of manufacturing establishments is 8 years, for retailers it is 6 years, for wholesalers 7.5 years.

Small business problems, Dr. Cover indicates, include shifting population; incompetent management; inadequate capital; inadequate control over costs, credit, sales, markets; governmental regulation, national, state and local. There is often competition between state and federal governments for jurisdiction over trade and commerce.

Complaints of small business men themselves, as summarized by Dr. Cover, include allegations of excessive local licensing fees; of state barriers in the form of registrations and licenses; of coercion by labor; of racketeering.

The business world often witnesses rival pressure groups that want to promote or to restrict competition, writes Dr. Cover; to alter or to make more rigid the channels of distribution; to make price a barometer of the market or to stabilize prices so as to assure profits; to permit certain practices for competitive advantage, or to prohibit others called monopolistic; to tax for local trade advantages. But, observes Dr. Cover,

the activity of pressure groups to obtain legislation for advantage leads to discrimination, and also to retaliation on the part of others affected.

Much special legislation has been proposed to aid independent small business. It has been urged that it should have special credit facilities, and that the federal government should finance a program of research comparable with that for agriculture. Other aims of recommended legislation include the preservation of fair competition, and of existing channels of distribution.

RETAILER-OWNED COOPERATIVES

The main emphasis of this book is on the associated efforts of individuals and organizations. We will now consider a type of cooperative endeavor different from those described in the previous chapters. Independent retailers have been organizing for "collective buying" of their supplies, thus assuring themselves of certain advantages of quantity purchases, and enabling them to cope more advantageously with "chain store competition." These organizations have become known as retailer-owned cooperatives. Also, during the past few decades "voluntary chains" of independent retailers were formed, largely with the encouragement of wholesalers. These were originally organized for the purpose of efficient selling.

The situation in the food stores was thoroughly studied by the Institute of Food Distribution in a report issued in 1936, entitled "Group Selling By 100,000 Retailers," by Gordon C. Corbaley. The subtitle reads: "The Evolution of Food Distribution in Voluntaries and Cooperatives." The institute learned, for example, that in Sweden and Holland, "voluntaries" and "retailer cooperatives" were being organized to enable independently owned businesses to work more effectively with one another in order to meet the competition of the consumer-owned cooperatives. In Poland, at that time, the retailer cooper-

ative idea was being advocated as a means of enabling the independent to survive in competition with the large chain stores.

The institute soon found that these two main types of associated effort, voluntary chains and retailer-owner cooperatives, were moving toward similarity of methods. For one, they were competing with one another for the allegiance of the numerous independent retailers, and second, they were both competing with the rapidly moving corporate chains. This naturally influenced both types to use the same methods to "match what the chain stores were doing." Retailer cooperatives, for example, starting with collective buying and performing wholesale services at low cost, have been actively entering the field of "collective selling" and have been giving attention to field organization that will improve the operating methods of their local retailer members. "Voluntary chains, starting from collective selling and field work to improve retail stores, have been driven toward standardizing their wholesale service to secure the lower costs which would deliver highly competitive staples and advertised brands at prices about in line with similar deliveries to retail stores by the corporate chains and by the cooperative groups."

In 1935, the year covered by the report we are interpreting, there were about 110,000 independent retailers organized into voluntaries and cooperative buying agencies, which handled between 25 per cent and 30 per cent of the daily movement of food through local stores in the nation. This "spread of cooperation," says the report, enabled these retailers to standardize retail store methods. "The necessity for that cooperation continues. Retailers, wholesalers and the supply houses affiliated with these independent groups can work together successfully only if they really cooperate with each other—make mutual

concessions in prices and methods for the purpose of delivering a more effective service in the retail stores."

In 1939, the institute again surveyed voluntaries and cooperatives among retailers in the food distribution field. The report of that year indicated that 108,750 retailers were affiliated in 753 groups, a slight decline from the figures of 1935, but the losses were mainly in the number of the relatively small informally organized cooperative groups of retailers. In general, voluntaries and cooperatives were "more strongly organized" in 1939 than in 1935. The "well set up voluntary or cooperative" was faring well.

The 753 groups formed in 1939 were divided as follows: 521, with 81,081 retailers as members were "wholesalers-sponsored"; 161 were "retailer-owned wholesalers," with 25,042 retailers as members; 71 were relatively small "cooperative groups" with 2,627 retailers as members.

Both the 1939 and the 1935 reports indicated that the "small groups of retailers, organized to buy and sell together," were decreasing in number. Some of them were taken over by wholesales as part of voluntary chains. Others raised enough capital to operate their own central warehouses.

In "Group Selling by 100,000 Retailers," the institute reported that these movements were to be found extensively organized in all parts of the country except the South, "the territory from Maryland to Oklahoma and Texas," where a large part of the food is bought from "the general stores."

An important event was the organization in 1928 of the National Retailer-Owned Wholesale Groceries, Chicago, as a national agency of retailer cooperatives. This was begun as a facility for joint buying. "It started developing a national line of labels," says the institute report. It also grew in membership and trade prestige "because it offered one central rallying place for the retailer-cooperative . . ." These cooperative buying

agencies start "from retailers uniting under the democracy of common consent."

COOPERATIVE ENDEAVOR AMONG DRUGGISTS

"Cooperation to benefit the independent druggist," is the declared purpose of the Federal Wholesale Druggists' Association, which has recently described its history and methods of operations in a mimeographed brochure entitled "The Story of a Cooperative Endeavor." The association numbers among its members 10,000 retail druggists, represented through thirty large wholesale drug houses throughout the United States and Canada. Approximately one-fifth of the total retail drug outlets in the United States are stated to be affiliated. The F.W.D.A. represents the wholesale member in his contacts with the manufacturers, the public and the various federal agencies. The wholesale houses, in turn, serve their affiliated retail druggists "in connection with a thousand and one merchandising functions of buying, advertising and selling." The entire process is for the purpose of obtaining "saving in the cost of distributing merchandise from its source of origin to the ultimate consumer . . ."

Through this "cooperative wholesale drug movement, the retailer members are purchasing merchandise amounting to approximately \$50,000,000 yearly," in connection with which F.W.D.A. claims "cooperative savings" over other methods of \$6,500,000. One wholesale house, operating thirty-five years, has distributed to its members nearly \$8,000,000 in savings. Another reports more than a million dollars saved for its members in five years. One of the special benefits of this method is said to be an acceleration of the turnover of inventory. F.W.D.A. says that the average drug retailer, buying through his cooperative wholesale house, has found he can do business

with an inventory of one-third less than what would be necessary if he were not a member.

The usual investment of capital by the retail druggist in his cooperative wholesale is the amount adequate to cover his purchases for one week. It may be about two hundred dollars. In many cases, the retailer may pay a small amount initially, and the balance may be amortized by the use of savings as a result of purchases. Thus membership is "available for the efficient merchant of limited means." In his dealings with the cooperative, "the retailer usually pays each week for merchandise purchased the previous week."

The first cooperative wholesale drug house was organized in Philadelphia in 1888. One of the earlier groups traces its origin to thirteen determined independent retailers, who met in the back room of one member's store and, after their pooling their purchasing power, each took a share in an order totaling a gross of one well-known proprietary and a barrel of another. Soon they outgrew the inconveniences of the small room and rented a warehouse. Cooperating purchases were at first confined to the rapidly moving items. Later they developed into a large organization handling thousands of items.

Drug cooperatives now no longer confine themselves to purchasing. "They have entered the field of cooperative merchandising." The wholesalers now "operate showcard and art departments, provide window and inside store decorating plans and carry out periodic advertising campaigns in the press and on the radio. Many wholesale cooperatives conduct classes to educate their retail affiliates in new sales and merchandising techniques."

WHAT PROSPECT?

What is the prospect of the independent in relation to the possible development of a cooperative economy in the United States. The independent has generally been thought of as a

symbol of the traditional individualism of American business. But with all this traditional ruggedness, big business developed mass production and mass distribution through the chains, and left many little fellows ragged. Shall they hold on, asking more and more government assistance, as have many farmers? Or is the traditional individualism outmoded, and not much worth talking about in a day of social crisis, which calls for associated effort on the part of individuals? Will the chains wipe out most of the independents eventually? Or, will the chains, the mail order houses and the co-ops, and other competitors together sooner or later drive out most independents? Will independent retailers develop an extensive cooperative movement of their own, as they have begun to do in foods and drugs? Should the independents recognize the consumer-ownership trend, and plan to sell out to consumers' cooperatives? These are questions receiving recognition in the minds of both independent and cooperative leaders.

It sounds like "good American democracy" to advocate the cause of independent business, and call it the bulwark of the Republic, etc., etc. This strain overlooks the evidence that the individual in business for himself was the bulwark of an *individualistic* democracy, but that for some decades we have been evolving a relatively *social* democracy. Many socially minded persons hope there will always be self-employed people, and that we will always have a society in which a person may enter many types of business "for himself." The very term independent appeals to most of us. We like to think of free, dignified, responsible individuals. Yet for many of these individuals, the most satisfactory life does not lie in "going it alone." The fullest economic life, the greatest freedom, lies in free association with one's fellows. "You cooperate in order that you may be a better individual," one of our poets once put it.

PART IV: PUBLIC COOPERATION

Chapter 8

REGULATION

Seeing every day new things which the state ought to do, the next thing is to see clearly how it ought to do them.

—WOODROW WILSON. 1887

IN 1942, National Cooperatives, which serves many retail co-op food stores throughout the country, pointed out in striking terms the differences between two regulations issued by the Office of Price Administration. O.P.A. was regulating the supply of coffee through a "dealer quota" system, based on the amount of sales in years prior to the order. But co-op business had been growing, and the result was that the dealer quota system had the practical effect of penalizing a cooperative for doing a good job of food distribution. By contrast, the O.P.A. system of rationing sugar by means of coupons issued directly to consumers did not so penalize a growing cooperative. As its business grew, it simply secured supplies to the extent which the cooperative consumers purchased sugar by turning in their coupons. Regulation "made a difference" to co-op consumers day by day. These and other protests were heeded, and coffee was rationed to consumers by coupon late in 1942.

MUTUAL AID THROUGH GOVERNMENT

Democratic government at its best is "public cooperation." It is also frequently "obligatory cooperation," although as we shall see the services of our expanding government do not always provide for "compulsory cooperation"—they are simply offered to those who wish to use them. Political democracy is an important technique of mutual aid, and needs to be con-

sidered side by side with the voluntary organizations previously described. Indeed, when the term "popular institutions" is used, one must think of *both* the agencies of the people in the government, and the organizations of free people that are possible without direct governmental intervention. Nothing has been more pronounced during the past generation, not only in the United States but also throughout the whole world, than the tendency of the people to ask the state to serve them in a great variety of ways. Going into politics means a way to fight against poverty, says a woman member of the British Parliament from Scotland. The growth of social legislation in the United States is evidence of the way increasing numbers of our citizens not only fight against poverty, but aim to improve standards of living and income, to promote social security and the welfare of large numbers of neglected people. Justice, equity and charity are the objectives of most of the acts passed by our legislatures, national and state.

OUR EXPANDING STATE

Once it was good American doctrine, generally accepted, to say that government is best which governs least. Such a limited conception of the functions of government has not ruled recently in the minds of the majority of the people. On the other hand, the expanding state has been the cause of the deepest concern on the part of many thoughtful citizens. This concern is found in people in all walks of life. It is not confined to the wealthy, who have always profited best under a strictly limited government, and it cannot be dismissed as a reactionary view, even though some reactionaries who do not want to be governed at all are vocal about it. The trend toward centralized government with strong powers grew gradually until 1933, when the financial crisis gave impetus to new social overtures, which,

while not wholly novel, were nevertheless such sharp departures that those who called them a social revolution were legion.

WAR AS A CENTRALIZER

Now comes the war, total war, a new situation for all of us, when strong central powers are the order of the day and are seldom challenged. The amassing of a huge debt in itself makes necessary the exercising of strong fiscal powers by the central government. We came out of the World War of 1917-1918, with our powers unimpaired, ready to throw off the strong governmental controls. But the fact that we did it then is no guarantee that we will recover freedom for individual and voluntary enterprise after this World War. For our world is far different. Some think that to beat a total state in war you have to go almost totalitarian in economics during a war. How likely are we to "unscramble" after the war, and to restore the freedom for which we are fighting? Democratic government may slip over into something not democratic government. Those who are truly interested in freedom for the human personality, and in voluntary cooperation among free men, recognize the great dangers. Eternal vigilance is still the price of liberties, and more than vigilance—the intelligent influence of the democratic forces on the political and economic "domestic fronts," day by day.

The problem of where to strike the balance between the powers of individual and voluntary enterprise on the one hand, and those of the governmental agencies that have derived their powers from the people on the other, is an eternal one. It is always solved roughly, and no adjustment can be made neatly in terms of a precise theory. The people themselves decide these balances from time to time, sometimes consciously, sometimes unconsciously. The common sense of the common

man is the final arbiter, unless the common man is confused by overwhelming crisis, or his own political leaders.

IMPORTANCE OF REGULATION

In the growth of federal government, nothing is more extensive than the development of regulation of corporate enterprise. So much has this been carried forward, that some have referred to our government these latter days as a "regulatory state." This adjective does not, however, convey the complete picture, because our government also engaged in banking enterprises, made attempts at assuring social security, built and operated public utilities, provided employment, and in many other ways compensated for the deficiencies of existing economic institutions. In our review of these agencies of the people, we start with a brief summary of "administrative regulation" of corporate enterprise in the public interest.

The rise of the corporation, the tendency of corporations to become monopolistic, and the contrary tendency of corporations to engage in unbridled competition, all led governments to apply regulatory measures. A corporation is a business institution that receives a charter, i.e. a grant of power, from a democratic government. Yet the corporate form of business institution is itself inherently undemocratic. Indeed, the lack of democracy in a corporate type of enterprise is often defended as necessary in the name of efficiency. The frequent separation of ownership and management, the rule of voting at shareholders' meeting by the amount of stock held (the heavier the investment in shares, the larger the vote), neglect of labor relations and of consumer interest,—all have made the great corporations objects of deep concern on the part of the democratic people that granted the corporations their powers in the first place. For corporate powers too often became privilege, and led to exploitation on the part of those in whom sovereignty

resided. The growth of a business oligarchy and autocracy, at least from the Civil War to 1933, has been the real reason for the numerous governmental reforms that have latterly greatly affected and controlled the destiny of business corporations. The people have decided that private business enterprise is affected with a public interest.

STARTING WITH RAILROADS

The year 1887 is commonly regarded as an important date in the history of public regulation, because in that year the Interstate Commerce Commission was created. A powerful public force in its creation was the Granger movement, an agrarian protest against the unbridled power of railroad corporations. Farm people away from the centers of populations have always had a high interest in the railroads, because they must frequently pay the transportation of their products to central urban markets, and they must also as consumers pay for the transportation of their manufactured supplies from urban factories to the country towns. The farmers say they pay for transportation "goin'" and "comin'"! The I.C.C.'s powers over ratemaking, i.e. the prices railroads may charge the public for their services, and over the financial structures and securities of the corporations, were not strictly defined until 1907. Recently, the I.C.C. has also been authorized to regulate all common carriers engaged in interstate and foreign commerce. It now further "acts to develop, coordinate and preserve a national transportation system by water, highway, rail and other means"

Since 1928 the National Mediation Board has facilitated the making and maintenance of labor agreements between railroads, railway express, the Pullman Company, air lines, and their employees. These agreements have established the rate of pay, the rules and the working conditions of the em-

ployees. The board is also authorized to investigate disputes, determine by election the proper representatives of employees, and to arbitrate, under certain conditions.

LABOR CONCILIATION

The United States Conciliation Service of the Department of Labor, dating from 1913, has brought about peaceful settlements of many disputes between labor and management. The National War Labor Board, in the Office of Emergency Management, has since 1941 established rules which have resolved labor disputes that have not been settled by the Conciliation Service, voluntary negotiation, or other means, and that have threatened to interrupt production contributing to the effective prosecution of the war. The board itself consists of four representatives of employers, four of employees, four of the public. Its orders and awards, in wartime, generally have the effect of "compulsory arbitration," although they are not so named, and although the board was not set up by legislation.

The National Labor Relations Board, established in 1935, protects the rights of employees in industries engaged in interstate commerce to full freedom of self-organization and of designating representatives of their own choosing, for the purpose of collective bargaining. It conducts elections by secret ballot to determine the authorized representatives of employees. It declares unlawful, subject to review by courts, unfair labor practices that deny the right of collective bargaining or interfere with self-organization.

BITUMINOUS COAL

Bituminous coal was long known as a depressed industry, unable of itself to cope with its serious problems. Here competition with other fuels, competition between regions, free competition among operators, seasonal work, etc., had combined

to make for a bad social situation. The Bituminous Coal Division of the Department of the Interior, dating from 1937, was created with specific powers to try to stabilize the industry. It has price-fixing powers, and also a consumers' counsel. It is aiming to conserve resources, to find new uses for coal, and to improve methods of mining. Lately this division declined, because of the wording of the statute, to license consumers' cooperative wholesalers of coal, along with other distributors. The consumers' cooperatives, after a fruitless court test, now are seeking an amendment to the law. Here is an illustration of high consumer interest in the turn of a phrase, as a bill grinds through the mills of Congress, and in methods of regulation.

FEDERAL TRADE COMMISSION

Unusual consumer interest has centered in the Federal Trade Commission (1914), which has often been distinguished for more of a "consumer point of view" than many federal agencies, and for notable investigations that have revealed consumer exploitation. Since 1938, when the powers of the commission were broadened, it has been empowered to act and investigate on the complaint of others than competitors. Prior to that time a complainant had to show interest as a competitor. The commission has endeavored, with varying degrees of success, to promote "free and fair competition in interstate trade." It has issued orders to business to cease and desist from "unfair methods of competition and deceptive acts and practices," as defined in various laws. However, the commission has never been generously or even adequately supported. It has often had to do much with little substance and small staff. The commission is now a watchdog over advertising and endeavors to safeguard life and health by preventing false advertisements of food, drugs and cosmetics and of devices injurious to health. It makes investigation of trade practices and conditions, and

recommends remedial legislation. In antitrust matters, it may make recommendations, on request of the Attorney General, for the readjustment of a corporation's business to bring it in harmony with law. In any government antitrust suit, the commission may, at the instance of a court, report an appropriate decree. The commission administers the Wool Products Labeling Act, designed to protect the public against undisclosed substitution of various commodities for wool.

ENFORCING ANTITRUST LAWS

The rejuvenation of the Antitrust Division of the Department of Justice, by Thurman Arnold,¹ attracted great public interest in the regulation of tendencies toward "too little competition," i.e. toward monopolies and monopolistic practices. The division recently has been vigilant to prosecute when it found evidence of unlawful agreements to restrict production and to raise prices. Any tyro knows that mergers and combinations of large industries went on for years relatively unchecked, and that trade associations have flourished in their promotion of certain types of activities that have tended to limit competition among members of an industry. The Antitrust Division of the Department of Justice, under Mr. Arnold, really began a vigorous enforcement of the antitrust laws of the United States. This division also handles the legal proceedings connected with some thirty other major acts of Congress involving the regulation of business activity. Mr. Arnold has brought actions again labor unions as well as business combinations under the Antitrust Act, but court rulings have prevented the application of the laws to unions. Mr. Arnold then recommended an amendment to the Sherman Act so as to have it apply to certain labor union practices, as noted in Chapter 3.

¹ When this book was in press Mr. Arnold was appointed to the federal bench.

UTILITIES

The Federal Power Commission regulates the activities of certain utilities engaged in interstate commerce. It licenses hydroelectric developments on streams subject to federal jurisdiction. It has authority over the transportation and rates of sale at wholesale of natural gas in interstate commerce.

The Securities and Exchange Commission regulates the public utility holding companies, and in many instances is recommending dissolution of these "top systems," and rearrangements of the operating companies that they have controlled. The S.E.C. also supervises the registration of security issues and regulates trading in securities. It registers and regulates investment companies and advisors of investors. (In the next chapter on "Public Ownership" there is a discussion of regulation vs. public ownership.)

PRICE CONTROL AND RATIONING

The general regulation of prices as a war measure has, of course, often had the center of the stage in the average family. To O.P.A. was entrusted the gigantic task of trying to hold the general price level at the points reached in 1942. Price control became necessary in England and Canada, and the measures invoked in the United States largely followed Canadian experience. Control of rents was also attempted in most areas. Price control was widely regarded as one essential in avoiding price inflation, or, to the layman, an unduly high cost of living. In World War I, the cost of living doubled. In World War II, the cost of living generally had advanced about 20 per cent between August, 1939, and August, 1942.

General price control as practiced in World War II was a crude process that had to be carried on with little experience or precedent as guides. The country accepted it reluctantly.

Farmer and labor pressure groups were not helpful. A certain portion of the American public began at once to exercise its skills in bootlegging. This time we used the term "black markets," a name that came from Europe. And much more difficult than trying to hold the general price level stable was quality control. One of the great temptations of the manufacturers and distributors was the possibility of raising prices by cheapening quality. Another was that of juggling grades and labels. There was evidence that all these devices were widely tried.

Closely related were the methods of rationing of scarce commodities. The one of using a dealer quota system, based on sales of prior years, was fair to the retailer whose business had been declining and decidedly unfair to those whose trade was increasing, for example, many co-ops. It also forced the retailer to ration his customers, something he and his customers both disliked. The only technique that really worked both to limit supply and to insure justice to all income groups—despite abuses—was rationing to consumers by coupons. It was exceedingly cumbersome and expensive to administer. But it brought the most satisfactory results, and many co-ops effectively influenced public opinion and government administrators in its support. Much of our rationing was done "too late," after threatened scarcities had encouraged hoarding by those with enough money to buy.

EVOLUTION OF THE FARM PROGRAM

The evolution of the vigorous national farm program, from Lincoln's administration with the passage of the Homestead and Land Grant College acts and the one establishing the agency that is now the Department of Agriculture, to the broad social action of the New Deal in agriculture, can be described largely in terms of the extension of federal regulation. Now the A.A.A. regulates supply of products by means of soil conservation

benefits, and aims to maintain an "ever-normal granary," fair to farmers and consumers.

Marketing quotas for six crops may be imposed, subject to approval of two-thirds of the qualified growers voting in a referendum, and violations may be punished by high "penalty taxes" upon the quantities sold in excess of the limits set. The Federal Crop Insurance Corporation insures wheat and cotton crops against natural hazards. The Agricultural Marketing Administration, among many other things, supervises the principal commodity exchanges of the country. The Soil Conservation Service purchases submarginal land for grazing, recreation, etc. With it all, the U.S.D.A. has had generally a producer point of view. It has been chiefly interested in the 50 per cent of the farmers who have produced 90 per cent of the crops going to market. The Farm Security Administration, already described, has struggled to assist the low-income farmer who heretofore has not had adequate representation in the Department. The Bureau of Home Economics has, among other agencies of the department, published valuable reports for consumers.

The Food and Drug Administration, long in the Department of Agriculture, is now in the Federal Security Agency. It enforces the Food and Drug Act designed to protect the consumer from impure and misbranded articles. It inspects and analyzes various products.

IS IT PUBLIC MANAGEMENT?

These are illustrations of regulation, which is "the product of the social trends of the last two hundred years," as put by John M. Pfiffner in the May 1942 *Annals* of the American Academy of Political and Social Science. We may also note that the process has been considerably facilitated by a series of Supreme Court interpretations that have promoted "the growth of a cooperative federalism," to quote Robert E. Cushman in

"What's Happening to Our Constitution?," Public Affairs Pamphlet No. 20, published in 1942. The Supreme Court, says Professor Cushman, has

modernized the Constitution by a rational process of applying old principles to new situations It has extended federal power under the commerce clause to practically all of the nation's business and industry, including the conditions under which goods are made or agricultural products produced. It has permitted under the commerce and taxing clauses the growth of a generous federal police power for the protection of the national social welfare.

Once President Franklin D. Roosevelt added the famous words, "Private office is a public trust" to Grover Cleveland's famous sentence, "Public office is a public trust." By the processes of regulation the will of the people that private office shall become a public trust has been expressed. But, as has also been often said, our federal government has had in these processes no one clear-cut purpose. It has moved in one direction with bituminous coal, in another with public utility holding companies. It has not decided either to break up all the large business combinations, or to keep combinations and regulate them more carefully. It has acted industry by industry. In some instances Congress has moved toward decentralization of industry, in others it has encouraged centralization. In some situations the public controls are rather loose; in other strict public regulation has often become the equivalent of "public management"; in these latter, the public agencies rather than private owners practically assumed certain of the responsibilities previously associated with private ownership and management.

Chapter 9

PUBLIC OWNERSHIP

Private property, therefore, is a creature of society, and is subject to the calls of that society, whenever its necessities shall require it, even to its last farthing; its contributions, therefore, to the public exigencies are not to be considered as conferring a benefit on the public, entitling the contributors to the distinctions of honor and power, but as the return of an obligation previously received, or the payment of a just debt.

—BENJAMIN FRANKLIN

THE Panama Canal is "the canal" to most citizens, who seldom think of it as an example of a utility that is publicly owned and operated. The Statue of Liberty is on a little island that is a national public park, receiving considerable revenue by operating a ferryboat for a fee, running an elevator for a nickel a ride, and leasing space for a hot dog stand. When war was on, the much-criticized Tennessee Valley Authority was supplying 60 per cent of the electric current for the vital aluminum industry, and gone were the days when T.V.A. was branded "un-constitutional" in high places. T.V.A. had become one of the largest public construction projects in history. Its big power dams used the waters of the Tennessee nine times as they made their way down the valley. The movement for public ownership is one of the most forceful of those making for a cooperative economy. It is alive in the face of much opposition.

Public ownership is widespread, if we include the great forest and grazing lands, the postal service, parks, bridges, waterworks, markets, terminals, and many other types. Some would include libraries, hospitals, schools, and social institutions. In the democratic European countries, the movement has been more extensive than here. In many democratic countries,

for example, it has been customary for the public to own the telegraph and telephone systems, and the railroads. Because of limitations of space, we must confine ourselves here to a consideration of the public ownership of what the American people usually think of as utilities—the power plants and distribution systems.

From 1881 to the starting of the Tennessee Valley Authority in 1933, this kind of "public cooperation" expressed itself mainly through the municipal ownership of power plants. Many of these were located in small towns and villages. The number of publicly owned power plants increased from one in 1881 to 3,581 in 1922, decreased to 1,808 in 1932, increased to 2,632 in 1940. Every state had some. A score of large cities had public plants. There were in 1942, 316 villages, towns and cities owning and operating their electric light and power plants which had no indebtedness standing against these utilities. All the debt had been paid out of the earnings. Also, eighty-nine cities and towns were "tax-free" because they had used the earnings from their power plants to dispense with the levying of a tax in the usual manner. The people simply furnished themselves with municipal services by paying for them when they were paying their light bills.

POLICIES OF PUBLIC PLANTS

These illustrations point to one important distinction between publicly owned utilities and those privately owned and publicly regulated. The tendency of municipal utility enterprises has been to amortize their debts. The tendency of private operators of utilities has been to keep the capital account high, and thus justify the rates charged. Many municipal plants have been able both to amortize debt, and to reduce rates, through efficient management.

But recital of numbers of plants does not tell the whole story

of public ownership. Municipal plants have been local. Private power companies have developed the large systems for state-wide, interstate and regional distribution. In 1937, according to the data of the Federal Power Commission, publicly owned plants produced 6.7 per cent of the kilowatt hours of electricity of the country, but by 1941 the percentage was slightly over 15 per cent. In terms of capacity to produce, there was a corresponding increase. Public plants had slightly less than 10 per cent of producing capacity in 1937, and over 18 per cent in 1941, the latest statistics available. The increase in capacity and production of public plants is largely accounted for by the development of large federally constructed hydroelectric projects, of which the T.V.A. was the first. Since 1939, of course, both private and public plants have been straining to increase capacity because of defense work.

The large federal hydroelectric projects have made possible the production and transmission of power to municipalities. Thus certain municipalities have in recent years decided to buy power from nearby public plants, and have purchased their local private distribution systems. This has taken place in the valley of the Tennessee. The state of Tennessee now consumes mainly publicly produced power. The cities of Knoxville, Chattanooga, Nashville and Memphis have municipal systems that purchase T.V.A. power. In Nebraska, nearly 90 per cent of the state has been organized into public utility districts, and practically all the people, with the exception of residents of Omaha, are being served by these public agencies.

OWNERSHIP VS. REGULATION

The movement for public ownership of utilities can be understood only in relation to experience with public regulation of the privately owned enterprises. The power business has been known as the lustiest of the children of the era of indus-

trial expansion. It is relatively young, and has grown rapidly. The total investment in this business is estimated to be around thirteen billion dollars. In 1902, the American people consumed less than 5 billion kilowatts of electricity. In 1937, the figure passed 100 billions. In 1942, it was about 170 billions.

The first private plants, like those of the municipalities, were local. The first state regulatory agency was established in 1907; by 1911, ten states were regulating this industry; by 1921 all states except Delaware had established state controls over some aspects of the utilities. At first the private owners opposed public regulation. Now they have been favoring regulation as one means of preventing the growth of public ownership.

The electric utilities are for practical purposes monopolies. One reason for this is that it is too expensive to have duplicating services. But, with the development of giant power and its transmission over great regions, a new competitive element has been introduced. The people of a city that gave a charter to a private company may change their minds when the charter expires, and choose to buy power instead from a large federal hydro-electric producer.

FAIR RATES AND FAIR VALUE

Because private utilities have generally had monopolies of specific services, they have had a relatively favored economic status, as compared with business generally. For state laws and regulatory bodies have tended to try to give a fair return for fair value. But what are fair rates that yield fair return for fair value? A farmer was once asked, "What is your definition of a fair price?" He replied: "A fair price is 10 per cent above what I'm getting for what I sell, and 10 per cent less than I'm paying for what I buy."

This has been the central problem faced day by day by the state regulatory bodies. They have had their work reviewed by

courts, and these, including the Supreme Court, have considerably complicated the situation. This has been due to the fact that the court decisions have generally created the tradition that reproduction cost must be taken into account when valuations of properties are made as a basis for fixing rates. The court decisions have thus tended to keep valuations relatively high. This situation has given rise to a school of thought which has pressed for another technique, called the "prudent investment" method. This would involve computing original cost, minus depreciation, with adjustments year by year according to the amount of property additions and retirements. Those who favor this method believe it would simplify the problem of regulatory bodies. The Federal Power Commission has endeavored to get a modification of Supreme Court opinion and thus secure an acceptance of the prudent investment method. The court has not done so directly. It did, however, in 1938, in a rate case, sustain rates fixed for a privately owned utility by the California Railroad Commission, which regulates utilities, despite the fact that reproduction cost had not been included in the findings on fair value. In all these rate controversies, the public, of course, pays in one way or another for the expensive and protracted court trials. Also, state regulatory bodies have generally had no control over salaries, the number of positions needed in management, contracts for construction, or other items of cost.

But perhaps the chief reason for public dissatisfaction with state regulation has been the fact that the utility business rapidly sprawled all over the map. Holding companies were formed at the top to control numerous operating companies. Then holding companies were piled on top of holding companies. By 1924, the Federal Trade Commission found, twenty large holding companies controlled 61 per cent of the total generating capacity of the commercial power plants. But the

merging went on in the roaring twenties, so that in 1933, according to the Federal Power Commission, nine systems controlled almost 52 per cent of the nation's electric power output, and forty-eight systems controlled an additional 40 per cent. The now famous Federal Trade Commission investigation revealed other means than actual merger through holding companies, of securing concentration of control, interlocking directorates, voting trusts, stock trading, option warrants. Finally, the commission's investigation of the methods used by the utilities to corrupt public opinion shocked "the conscience of the nation," or at least that portion of the people who heard the findings and had a conscience on the issue.

SOCIAL IRRESPONSIBILITY

It was, in short, such a parade of social irresponsibility that the national reaction was swift and severe. For one, the Public Utility Holding Company Act was passed in 1935, and to the Securities and Exchange Commission was delegated the enforcement. The newspapers at once began calling it "the death sentence," simply reflecting the propaganda of those affected by the legislation. In actual fact, the law calls for regulation, which will enable the federal government to determine the direction of the growth of *national* utility systems. This process of regulation is still in the early stages. The orders thus far given point to an end of pyramiding, of unethical accounting practices, of extortionate service charges by holding companies from operating companies, of speculation, and concentration of control. In some instances, the orders given do provide for dissolution of holding situations; in others they provide for division, reorganization, decentralization. And, indeed, certain of the investors of the *operating* companies stand to gain in security through the process.

The second national reaction was for Congress to sanction

seven large hydroelectric projects, beginning with that of the Tennessee Valley in 1933. In potential power production, the Columbia and the Colorado Rivers outrank the Tennessee, but the Tennessee has thus far had the most extensive development. The T.V.A.'s transmission lines run for 5,000 miles into six states. When all the storage dams are built, the T.V.A. system will be capable of producing half as much electricity as was produced by all the plants in the United States in the year 1918. The T.V.A. is also charged with responsibility for the unified development of the resources of a region. The "total costs" were recently allocated as follows: to navigation, 21.8 per cent; to flood control, 12.4 per cent; to power production, 65.8 per cent, according to the 1941 annual report. Continuous study of allocations is mandatory, and the proportions may vary considerably.

THE PUBLIC POWER BUSINESS

Thus the T.V.A. is a governmental corporation that conserves lands, controls floods, develops navigation, builds dams, produces power, distributes power, manufactures fertilizer, encourages farm demonstrations, promotes recreation and enlists the cooperation of numerous voluntary and state agencies. It has employed engineers to invent low-cost farm machinery and electric appliances.

From 1933 to 1941, this people's business had received total appropriations, mainly for construction, of \$370,000,000, an average of around \$50,000,000 a year. In prewar days the total cost was estimated eventually to be \$500,000,000, but with the assumption of new war responsibilities that may be considerably increased. In the fiscal year 1941 gross revenues received from power were over \$21,000,000. The return on the investment in power facilities was between seven and eight million dollars. In the fiscal year 1941, T.V.A. spent for fertilizer research,

flood control, development of forest products, river development, etc., \$6,190,000. Thus the net return on its power investment of between seven and eight million dollars "exceeded the cost of operating all T.V.A. programs, developmental as well as water control," according to the 1941 annual report of the Authority.

COMPARATIVE RATES AND TAXES

What about comparative rates of public and private operation? President Roosevelt once stood with Senator George Norris of Nebraska on the banks of the Tennessee and said with his gift of popularization that he would develop there a governmental "yardstick" of the cost of producing power. The rates to consumers in the T.V.A. area, are in the words of its 1941 report, "among the lowest in the nation." But because T.V.A. has done many other things in addition to producing power, there will probably be eternal controversy over the allocation of costs to these functions as compared with those assigned to power production. Further, T.V.A. operates in a low-cost region for all types of plants, and the rates are not being accepted generally as "a yardstick."

The Federal Power Commission has made, pursuant to Congressional instructions, the most thorough recent inquiry that throws light on relative costs to consumers in private and public plants. The study was published in 1936, and the figures were for 1933 and 1934. The commission surveyed residential rates in 25,387 communities of all sizes. It found that comparisons of average monthly bills of household consumers in communities of similar size, rather than over-all state averages, was a fair method. The results indicated that average monthly bills for 25 kilowatt hours of the publicly owned utilities were lower than private plants in 153 cases and higher in ninety-one cases. For 100 kilowatt hours, the public utility bills were lower than

the private in 129 cases, and higher in 114 cases. For 250 kilowatt hours, the public plants' bills were lower in 101 cases and higher in 143 cases. Thus there was revealed a distinct tendency of the public plant to benefit the low-income consumers. Comparing rates for industrial and commercial use, the commission also found that charges by publicly owned plants were less than private plants in a majority of cases for all the classifications used.

But what about taxes? The Federal Power Commission found that 537 municipal utilities in 1936 paid taxes and made net cash contributions to municipalities equivalent to 18 per cent of their revenues. Also, these public plants reported giving "net free" services to their communities averaging 8.8 per cent of their revenue. Thus "tax equivalents" of public plants of 26.8 per cent of revenues were more than the taxes of 14.4 per cent of the revenues of 691 private plants in the same regions. But taxes of private utilities have considerably increased since 1936, and in 1941 and 1942 became such as to reduce many earnings. There are no more recent comprehensive data bearing on the tax question.

✓ RURAL ELECTRIFICATION

The Rural Electrification Administration represents another example of public initiative, by means of still other measures. The R.E.A. is a "developmental public body," created in response to the needs of the farm people who had been overlooked in the midst of the roarings of the private utilities. Building power lines to farmers was generally regarded as a relatively expensive investment that yielded poor returns. In 1934, only 743,954 farm homes, among over 6,000,000 farmers, were electrified. Seven years later, 2,126,150 farms had electricity, and 780,000 of them secured it as a result of R.E.A.'s work. In other words, through federal initiative, in seven years,

as many farms secured electricity as had it in 1934. Also, R.E.A.'s work stimulated much private construction, some of it in the form of "spite lines" to head off R.E.A.

R.E.A. "went out" and assisted in the organization of 732 local systems, 90 per cent of them cooperatives and public districts, that borrowed a total of \$370,000,000 of public funds, to build eventually, a total of 1,171,867 miles of rural transmission lines. Loans are made to the local systems, mainly cooperatives, for twenty-five years at an average interest rate of less than 2.5 per cent. While repayments were satisfactory in 1941, the venture was "young," and it was too early to make a definite appraisal. Hundreds of thousands of farmers have become members of coöperatives and have the opportunity of participating in them. Also, numerous small industries have become customers. A survey in 1941 showed 5,365 rural industrial and commercial establishments were using service. Many rural schools and churches were being served. Operations were carried on in forty-five states. ✓

WHAT KIND OF EXTENSION?

The Public Ownership League of America, formed in 1914, is an organization of public-spirited citizens interested in the protection and promotion of our public utilities and natural resources. It conducts an annual public ownership convention, that has been called "more than a convention." It has developed an extensive literature of its own on the public ownership movement. It has published over 100 titles, ranging from leaflets to books. It publishes the magazine, *Public Ownership*, which carries news of activities in all parts of the country. An editorial in 1942 declared that public ownership was one of the great social assets of the nation, that public production of power was a natural part of the war program, that public

utility districts should not in any way relax their efforts to extend their services.

The people may transact a good deal of their own business through the medium of governmental agencies. The ownership and operation of utilities provides us with numerous illustrations. It is often thought, however, that utilities are a "natural" for public ownership because their operations may be readily standardized. Further, they are most efficiently operated when responsible agencies are set up that are not too close to political manipulations and influences. Public management can be efficient. In the United States, unfortunately, we have been a wasteful people and have probably not yet generally managed wisely in either public or private business.

The most serious discussions of public ownership in the cooperative economy relate to its extension among the electric, water, gas, waterways utilities and to the railroads. The public ownership and operation of the great industries, such as coal, lumber, steel, automobiles, chemicals, etc., is not widely advocated. Regulation is apparently preferred, as we have noted, and regulation may become the equivalent of "public management."

VOLUNTARY AND PUBLIC COOPERATION

And what about the relation of voluntary cooperation to public cooperation? In the T.V.A. area, for example, they obviously supplement one another. In the Scandinavian countries, both have been highly developed in the creation of social and economic democracies. They *may* also become competitors with one another, but in actual practice rough divisions of labor based on "natural talents" are worked out. Voluntary cooperatives for the more venturesome and flexible operations of business, publicly owned utilities for the regularized services that are used by everybody—that is the way some students view

the probable functions. For the same people who are producers and consumers are also citizens. There will thus be, if our co-operative economy keeps on developing, producer cooperation, consumer cooperation and public cooperation.

There will be, if events are fortunate, a self-contained and self-controlled producer-consumer economy, organized independently of the state, but obviously interdependent with it. There are those who believe that the voluntary forces are the most important, that the state is an "unnatural agent" to provide employment and to become an owner of many productive properties. There are those who believe that voluntary cooperation and public or obligatory cooperation will both develop with power and influence and will somehow flourish "side by side." There are those who see our future as essentially one of the leadership of public enterprise, with voluntary cooperation in a secondary role.

Everybody is and will be deciding what the emphasis will be. We decide the way we buy and sell as well as in the way we vote. The people are deciding whether they know they are deciding or not. Public and private decisions in wartime have a vital effect on the long future.

Chapter 10

PUBLIC CREDIT

When either business or government usurps the sovereign powers of the people, it has violated the most sacred principles of a free society.¹

—PHILIP CABOT

THE largest bank in the United States is not called a bank at all. It is named the Reconstruction Finance Corporation. For a time it was known as a bankers' bank, because it made many loans to financial institutions. It has secured the funds from which to make its huge loans from the Treasury of the United States or from investors, by issuing to them securities of its own. For the federal government is a big banker, and the R.F.C. is a public credit institution that had made commitments of some seventeen billions of dollars up to June 30, 1941, most of which had been repaid. It has made loans to over twenty-five types of borrowers, mainly commercial credit institutions. Public credit has also become very extensive in the financing of homes and farms. Further, public and private finance have become closely related, even interdependent. In financing agriculture, our national public credit system functioned largely through local cooperatives. In general, reliance upon public credit greatly increased between 1932 and 1942.

FOR THE HOME OWNER

Public credit for the benefit of home owners was initiated in July, 1932, under President Hoover, with the passage of the Federal Home Loan Bank Act. It set up a central "reserve credit system" for various thrift and home-financing agencies, some-

¹ *Addresses, 1935-41*, Cambridge. Copyright, 1942, by Hugh Cabot.

what parallel to the Federal Reserve System for commercial banking established in 1913. The local associations, known variously as Building and Loan Associations, cooperative banks, mutual savings associations, etc., became eligible for membership in the system and for loans from the twelve district Federal Home Loan Banks upon adequate security in the form of home mortgages or government obligations. The federal banks thus do not loan directly to the consumer, but to local organizations that have the contacts with the home owners. The system grew rapidly, from 119 local institutions as members in 1933 until on June 30, 1942, the member institutions numbered 3,815, with total assets of \$5,500,000,000. The Home Loan Banks had furnished \$928,933,902 to these member institutions, of which \$736,288,966 was repaid by June 30, 1942. No losses had been incurred.

The Federal Home Loan Bank Administration, now under the National Housing Agency, was also authorized by Congress in 1934 to operate the Federal Savings and Loan Insurance Corporation, which by June 30, 1942, had insured the safety of investments of individuals up to \$5,000 per investor in 2,374 local associations that had become members.

Between 1933 and 1936, the Home Owners Loan Corporation, administered by F.H.L.B.A., loaned almost \$3,100,000,000 directly to about 1,018,000 home owners in distress. No new loans were made after 1936. By June 30, 1942, over 160,000 loans had been repaid in full. But H.O.L.C. had by that date also foreclosed on 190,000 properties, and had disposed of 150,000 of that total.

The F.H.L.B.A. charters and supervises federal savings and loan associations; also gives federal charters to such institutions already organized under state charter. By the end of the fiscal year 1942, 1,464 such associations had been chartered, of which 824 had been converted from state organizations. All

such chartered associations must become members of the Federal Home Loan Bank System.

Still another technique is that used by the Federal Housing Administration, also administered by the National Housing Agency. F.H.A. simply insures private lending agencies against losses on two types of loans: first, those for repair, alteration or other improvement of real property, which may or may not be secured by collateral guarantees; second, those secured by mortgages on buildings designed primarily for use as residences. Begun in 1934, F.H.A. had to the end of the fiscal year 1942, done a total business of \$8,888,183,341. This includes insurance of loans from private capital of \$1,615,047,342 for repairs, mainly of residences; \$6,541,355,412 for small home mortgages; \$148,609,116 for large-scale or apartment house mortgages; and \$583,171,471 for housing in industrial defense areas. The last named are only to be made in areas in which "the President shall find that an acute shortage of housing exists or impends which would impede national defense activities."

FARM CREDIT

The Farm Credit Administration, already referred to, administers a complete and coordinated public credit system for agriculture by making available to farmers long-term, intermediate and short-term loans. It also provides credit facilities for purchasing, marketing and other service cooperatives organized exclusively among farmers.

The Farm Credit Administration, once an independent agency, since 1939 a part of the Department of Agriculture, includes a number of agencies. The twelve Federal Land Banks, established in 1916, make long-term loans on first mortgages on farm lands, through some 4,500 national farm loan associations located in the community where the farms to be mort-

gaged are located. In June, 1942, the loans outstanding totaled \$1,705,806,000, and were equal to about one-fourth of the total outstanding farm mortgage loans in the country. The Federal Farm Mortgage Corporation, begun in 1933, aids the Land Banks, and the "Land Bank Commissioner" in farm debt refinancing operations, and in 1942, Land Bank Commissioner loans to farmers on mortgages totaled \$567,745,000.

The Intermediate Credit Banks, started in 1923, make loans for and to three year terms to such as cooperative associations of agricultural producers, state and national banks, livestock loan corporations and similar agencies. They have no authority to loan directly to farmers and stockmen, but operate as "banks of discount" for the credit institutions that do make such credit available to individuals. Loans outstanding in 1942 were over \$260,000,000.

The national and regional banks for cooperatives make loans to farmers' cooperatives for various purposes, such as those to finance the handling of readily marketable products or supplies; for operating capital; for building or repair of physical facilities used in marketing produce or in handling supplies. Loans outstanding in 1942 amounted to \$101,226,000.

Over 530 local production credit associations, formed since 1933, make short-term loans to farmers secured by a lien on the crop to be planted. These associations are so distributed that they each have a constituency within about five or six counties, and they are thus so located as to be accessible to most of the farmers in the approximately 3,000 counties with rural population. Loans outstanding in 1942 totaled \$247,895,000.

LOANS AGAINST FARM COMMODITIES

The Commodity Credit Corporation, created in 1933, also administered by the Department of Agriculture, makes loans directly to farmers against numerous commodities held by

these producers at amounts fixed from time to time by legislation. Recently, loans have been generally authorized at 90 per cent of "parity," the 1910-1914, or prewar, purchasing power base. This public credit corporation has thus been an important part of the price stabilization goals of the total national farm program. Loans have been made against about twenty different commodities, including cotton, corn, wheat, tobacco, rye, butter, wool and the amount outstanding on June 30, 1942, was \$219,450,834. Loans are frequently defaulted and the federal government then becomes the owner of the commodities. Acute controversies have arisen over the prices for disposal of these crops by the government. In 1942, Congress debated for months whether to authorize the Department of Agriculture to sell about 100,000,000 bushels of government-owned wheat for feed at less than parity. In the end, on insistence of the President and the Senate, the House of Representatives agreed to sales at less than the parity figure.

OTHER BANKING BUSINESS

In the Postal Savings System the total deposits were \$1,308,000,000 in May, 1942. This simple savings' method, administered by the Post Office Department, was begun in 1911.

Authorized to do a general banking business is the Export-Import Bank of Washington, which aids in the financing of the exchange of commodities between the United States and its insular possessions and any foreign country, its agents or nationals. It is administered by the Secretary of Commerce.

The Electric Home and Farm Authority, also administered by the Secretary of Commerce, has functioned largely in the area reached by the Tennessee Valley Authority, by making credit directly available to consumers for the purchase of electric and gas apparatus, equipment and appliances, so as to

make practicable the use of high quality and low-cost equipment in homes and on farms.

The use of public funds to build homes for low-income families by the Federal Public Housing Authority, formerly United States Housing Administration, is considered in Chapter 12, on "National Social Minima." The lending operations of the Farm Security Administration have been described in Chapter 5 on "Productive Homesteads." The work on behalf of rural electrification was described in Chapter 9 on "Public Ownership."

Even the recitals in these chapters do not touch upon all aspects of public credit on a national scale. Nationalization of the monetary gold stocks in 1934 was an important step in the exercise of governmental controls over credit. The activities of the Federal Reserve System in rediscounting loans of local banks and in the direct purchase of government securities, particularly in wartime, may have far-reaching effects—either in the direction of inflation or deflation—and may vitally influence the welfare of the great majority of citizens. The work of the Federal Deposit Insurance Corporation, in insuring bank deposits up to \$5,000 per depositor, profoundly affected the credit resources available to consumers and producers.

ISSUES RAISED BY "DEFICIT FINANCING"

Furthermore, the use of public credit as a means of influencing the whole economy through large-scale governmental purchasing has created big issues in the minds of many socially minded people. Some say that is the road we are traveling, anyway. They think we are in for sustaining ourselves for a while by huge governmental deficits, after the war, as well as during it. But many of the leaders of the people's movements that we consider in this book do not believe it is the road we

should travel. They submit that there should be relatively more taxation, and relatively less borrowing, even during war.

Thus public credit may become a powerful stimulant, for the short pull or the long pull, if it is used, as in war, to create huge pools of purchasing power. But borrowing two dollars for every dollar raised in taxes does not impress all of us as social statesmanship for the long pull.

Public credit thus has become a technique of mutual aid, of use to many people, notably home owners and farmers. It is already extensive. Should the people's organizations generally view the results with satisfaction? Or, should they declare their independence of government credit, as well as of commercial banking? What divisions of labor should be worked out, as between commercial banking, government credit, and cooperative finance? Those who would think seriously about the good society are forced to think about these questions.

Chapter II

TAXATION

The philosophy of the future will endeavor to reconcile the good which is in the competitive, individualistic and libertarian concepts of the nineteenth century with the cooperative concepts which seem to me destined to dominate the late twentieth century¹

—HENRY A. WALLACE

THE scene was a Congressional committee room in Washington in the year 1926. Congress was at work on a revenue bill. The Senate and the House had disagreed, and each had appointed "managers" for the conference between the representatives of the two bodies. The Senate had thrown out of the revenue bill the House's provision for estate taxes. The managers for the Senate said that the House was not enacting a bill primarily to produce revenue, but was trying to enact a social reform. Promptly the spokesmen for the House of Representatives took up the challenge, admitted they were aiming at a social reform, said it was desirable that there be some "equalizing" through estate taxes. In the end, the view of the majority of the House prevailed even though the original rate schedule was reduced. That happened with Calvin Coolidge as President.

Taxes, federal, state and local, were equal to about 4 per cent of the total income of all the people in 1850, ten per cent in 1900, 20 per cent in 1941, and may be over 30 per cent in 1943. In 1943, the federal government alone will collect about \$25,000,000,000 in taxes, but will borrow more than twice that amount from banks, insurance companies, many other types of institutions and from individuals. Thus a very important

¹ *Whose Constitution*, New York: Reynal & Hitchcock, Inc., 1936

issue of taxation versus borrowing appears at once. How much should we tax and how much should we borrow?

Everybody, it is said, is ready to talk about taxes, and "tax justice," at any hour of the day. What kind of taxes should we emphasize? Which make for the building of a cooperative economy and which do not? Taxes are the most important form of revenue of governments, but revenues are only one aspect of fiscal policy, and fiscal policy is only one aspect of national policy. The kind of tax program people favor seems to depend in large part upon what they think the main trend in the national domestic policy should be or will be.

Taxation for revenue only was once a good American slogan that was the property of no one political party. But latterly we have had no such simple aim. Some say our tax programs have been only one accompaniment of our "social revolution" that has been under way, and goes on even in wartime. This social revolution has lodged political power in organized agriculture and organized labor such as these have never had before. There are "new men" in the lobbies in Washington, who call the tunes, and Congress pays relatively less attention to the older tunes called by manufacturing, commerce and finance.

Is it likely that the United States is destined in the postwar period to be in an era of public enterprise, with public direction of private policy, with public initiative for employment and the creation of new capital? Or, will the voluntary cooperative enterprises described in this book continue to develop, assume new and extensive responsibilities for employment and the creation of capital? Or, will the United States return to the days of twenty or thirty years ago, when corporations and individual business enterprise played a larger part than in recent years? The answers one gives to these and related questions, considered more fully in the next section, come prior to the

answers one gives to those related to the kind and degree of taxation.

Professor Raymond D. Thomas of the Oklahoma Agricultural College recently took the hopeful view of our current controversies over the burden of taxation in his 1941 presidential address before the Southwestern Social Science Association, as follows: "The signposts point in the direction of continuing experimentation in adopting the institution of taxation to the exigencies of social change. If these adaptations are wisely made, it would seem reasonable to predict that taxation might come to be considered not a burden but the dynamic force of an economic and social system which seeks the twofold objective of maximizing the use of our total productive resources and of preserving the human freedoms."

HOW TO PAY FOR THE WAR?

The big tax questions for Mr. Average Citizen were undoubtedly: How to pay for the war, and how to prevent inflation in wartime and in the postwar period? For the financial policies and practices of the federal government vitally affected the welfare and standard of living of every family. In the long run the feelings of the common man, expressed through his votes and purchases, promised to be controlling.

An ideal wartime financial program would attempt to get into the Federal Treasury, in one way or another, all the excess purchasing power in the hands of the various income groups, as Maxwell Stewart put it in "How Can We Pay for the War?", a Public Affairs pamphlet. But the particular methods needed in order to move toward this adequate program were the subject of much controversy. (For one thing, there was no definitive study of the way the national income was divided.)

Mr. Stewart went on to suggest both general directions and specific proposals that had wide support. To begin with, he

proposed greater emphasis upon taxing and less upon borrowing, in order to pay for the war. Our present federal fiscal system is based chiefly upon levies on personal incomes and on earnings of corporations, plus excise taxes on selected commodities. But a large portion of our taxes are not collected until a year or more after they are earned by individuals and corporations. This makes them "too late" as well as "too little." Increasingly people are convinced that many of the taxes on income should be collected as the income is earned, and that taxes in general should be collected more promptly. Further, says Mr. Stewart, "we shall have to increase tax rates all along the line, reduce exemptions, extend the coverage of existing taxes, and perhaps introduce some altogether new kinds of taxes." The issues presented in this publication were crucial; they deserved wide study and attention. For, as it also pointed out, "It is going to make a lot of difference . . . how we pay for the war. The cost of success can be held down by a wise and courageous financial policy, or it can be vastly increased by stupidity and timidity."

WHO PAYS THE TAXES?

One good answer, which startles many people, is that nobody knows. Even to some informed people it seems curious that so little is known about it. One pioneering attempt to find out was made by the Temporary National Economic Committee (T.N.E.C.) established by Congress, which published in 1941, a monograph "Who Pays the Taxes?" This was an exploratory study which in tentative fashion arrived at estimates of the tax burden for the fiscal year 1938-1939, by income groups. This revealed that the low-income groups, those having under \$500, between \$500 and \$1,000, and between \$1,000 and \$1,500, paid taxes respectively of 21.9 per cent, 18 per cent and 17.3 per cent, of their incomes. Persons with incomes of \$20,000 and

over paid about 37.8 per cent of income, according to the study, but they made savings of 38.3 per cent of their incomes, while the people in the lower brackets enumerated above made practically no savings. Low-income groups are greatly affected by the indirect or consumption taxes, local, state and federal. The methodology of the study has been sharply criticized by certain specialists, while others defend it. Secretary Morgenthau has testified before Congressional committees that low-income people pay a disproportionate share of their resources in indirect taxes of various kinds.

THE ANTI-INFLATION ASPECTS

Is taxation the most important technique or one of the most important techniques, in the battle against inflation, which may be defined as an unduly high cost of living? Many look to a drastic tax program as one of the very important blanks in an all-around anti-inflation program. In wartime, available supplies of consumers' goods are necessarily reduced. At the same time, the tremendous expenditures of the federal government place an unprecedented volume of purchasing power into the hands of producers. It has been estimated that in 1943 the purchasing power of the public will be many billions of dollars in excess of the value of consumers' goods in the markets. And among what groups is this new volume of purchasing power to be found? Again, no precise answer can be given, but indications are that the chief gainers of *volume of new* income may be those earning between \$1,500 and \$3,000 a year, especially those engaged directly or indirectly in war production. This large volume of new purchasing power is thus largely spread out among large numbers of persons with low or moderate incomes. It may have been accounted for mainly by four factors: (1) Many formerly unemployed persons are now earning; (2) wage increases; (3) promotions; (4) payments for overtime in factories.

THE GENERAL SALES TAX

Here the much publicized general sales tax issue comes up. If relatively low incomes are to be taxed, is it better to have an income tax that "will reach down," or a general sales tax? Polls have been taken indicating that a majority of the people would be willing to have a general sales tax of 2 per cent levied, in order to help pay for the war. There is also some informed opinion to the effect that low-income people would actually rather have a sales tax on every item than a new high income tax which they are unaccustomed to plan for in advance. Since most people apparently do not budget carefully, this attitude is understandable.

General sales taxes fall more heavily on the low-income families and individuals than on those in the higher brackets. Therefore, probably the leaders of consumer movements, and most economists interested in consumer problems, are in opposition to a general federal sales tax. A sales tax on food and clothing, for example, would be "regressive," and unduly affect a large proportion of the expenditures for necessities by those in the low brackets. An exemption from direct federal income taxation of \$1,200 for a family at least leaves untouched the expenditures for food and clothing of large numbers of families. This point is controlling to many who have thought carefully about the ethics of the sales tax.

Large sums of money apparently can be raised by either a drastic income tax, with low exemptions, or a general sales tax.

JOINT RETURNS FOR HUSBAND AND WIFE?

The Treasury has tried to make a case for compulsory joint returns for husband and wife, estimating that this step would produce much additional revenue annually. However, Congress

has always voted down the proposal. The issue has many "angles," only a few of which can be pointed out here.

At present there are eight states in the South and West, known as the "community property states," in which husband and wife divide income equally when reporting for income tax purposes. This practice has tended to reduce taxes significantly for families with net incomes of over \$3,500. It is estimated that families in these states have paid to the federal government at least \$50,000,000 a year less in taxes than if they reported in the same manner as in the other states.

In other states, separate returns for husband and wife may be made, when each has separate income. The return is made, however, in accordance with the amount of income each receives, and not by equal division, as in the community property states. Separate returns on the basis of source of income also tend to reduce taxes significantly for families with net incomes of over \$3,500.

Therefore it becomes obvious that it is the high-income groups particularly that lined up against compulsory joint returns, as well as the community property states.

Other matters also apply. The right of separate return is defended vigorously by advocates of economic freedom for women, who contend it assists a wife in controlling her own property and income.

The House Ways and Means Committee once recommended compulsory joint returns for husband and wife "if living together." This aroused widespread public discussion. Churchmen and many others raised "a moral issue," claiming that such a law would tend to break up families by providing an inducement to separation.

However, Secretary Morgenthau also raised "a moral issue," when testifying before the Senate Finance Committee. The Secretary contended that by permitting separate returns by

well-to-do families, in which husband and wife had income, the government was penalizing other families in which only husband or wife had income and a joint return was made. The Secretary estimated that since 1932 about \$7,500,000,000 in property had been transferred from one spouse to another, and that a great many wealthy people had taken advantage of the right of transfer, and had thus avoided taxes. Hence there are those who contend vigorously that the compulsory joint return really is in the interest of "tax justice," and of equality of treatment of families.

Joint returns of husband and wife have been compulsory in England for some years.

TAX-EXEMPT SECURITIES

The federal government has ceased to issue tax-exempt securities. Even the income of the special series of war bonds, being sold in small denominations, is taxable. Further, numerous issues of federal securities have been exempt from normal income tax, but not from surtax. According to the latest *Statistical Abstract of the United States* for 1941, published in 1942, total federal issues, exempt from normal personal income taxes, *but not from surtaxes*, amounted to \$31,231,000,000 between 1918 and 1940, compared with a total of \$6,928,000,000 of federal securities issued between 1913 and 1940 that were exempt from both normal income tax and surtax. States, cities and counties had outstanding additional totally tax-exempt securities amounting to \$16,706,000,000 in 1940.

President Roosevelt proposed, in a message to Congress, April 25, 1938, that a law be enacted taxing the income received from securities issued in future by states and by civil divisions within states. Many eminent legal authorities have held for some time that the federal government already has this power, because of the wording of the income tax amendment to the

federal Constitution, ratified in 1913, which declared: "Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration."

Charles Evans Hughes, when governor of New York, persuaded the legislature not to ratify the federal income tax amendment, because in his opinion it gave Congress the right to tax the income of securities issued by the state. But in spite of this and other opinion, such taxes have never been levied, and even today the members of Congress are divided as to whether to try to pass a law or to submit a constitutional amendment to the states for ratification.

President Roosevelt also suggested in the message of April 25, 1938, that effective action be taken to subject the income from future federal securities to taxation by the states. But Congress has thus far disregarded the advice given. In 1940 the federal government, pursuant to special legislation, began taxing the salaries of all employees of state and local governments. The Bureau of Internal Revenue is also testing in the courts its right to tax the income from securities issued by special agencies created by states, for example, the New York Port Authority.

A CONSUMERS' TAX PROGRAM

Consumer cooperatives, for the first time in their history, through E. R. Bowen, general secretary of The Cooperative League of the U.S.A., laid before Congress in 1942 a consumers' or people's tax program, as adopted by the board of directors of the league. Mr. Bowen appealed to the Senate Committee on Finance to help educate the people to the effect that excessive government borrowing brought on inflation, and to establish a goal of paying the costs of government through equitable taxation.

Specifically, Mr. Bowen opposed the general sales tax as unjust and contended that the individual graduated income tax was the sound base upon which a tax program should be built. Until a sound cooperative economy can be built and inequities in income removed, he urged the use of inheritance and gift taxes, of corporation taxes and of "luxury sales" taxes as sources of revenue.

"Taxing the poor on the basis of their pay checks or on their purchases, at the same rate as the rich, is the height of injustice," Mr. Bowen insisted. "There can be no form of taxation more unjust and inequitable than taxation on necessary consumption. No form of phraseology can change a leopard's spots—no more can the calling of a sales tax or payroll tax by the name of 'equality of sacrifice' make it any different in its fundamental and natural inequality. If the people are to become increasing believers in and supporters of political democracy, then the democratic principles of equality and justice must be applied to the economic sphere of their lives as well."

Mr. Bowen said the Cooperative League and its consumer cooperative members had embarked on a long-time program to help the people to understand the basic truths of taxation and government finance. He admitted the difficulty of having consumers at this time grasp the intimate association of debt and inflation. "If the people are to learn and practice the principles of thrift—of getting out of debt—of paying as they go individually—of balancing the family budgets—which are essential requirements in the stability of a people, then the government must itself set the example for the people," Mr. Bowen declared. "A government cannot itself practice a permanent policy of going into debt and preach successfully to the people a policy of paying off their personal debts. Excessive debt has proven to be an active forerunner of dictatorships. The Consumers' Cooperative Movement is in the process

of building an economy free from excessive debt and is setting the example which the government should follow."

TAXATION AND REGULATION

The taxing power is often used by Congress as an aid in exercising a limited police power in ways that have had great significance. One of the most notable of recent instances has been the enactment of rates of "punitive" or "destructive" taxation to enforce the quotas in the federal agricultural marketing acts. The marketing acts are regarded as an exercise of the power to regulate interstate commerce, and the tax thus assists in the regulation by Congress. Thus tobacco sold in excess of a grower's quota is taxed at 50 per cent, and wheat at 49 cents a bushel. In November, 1942, the Supreme Court upheld these penalty taxes in a unanimous decision.

That this is not a novel policy is shown by the following quotation:

"In 1902, under pressure from the dairy industry, Congress placed a tax of 10 cents a pound on the sale of oleomargarine colored to look like butter. This had the intended effect of driving the product off the market . . . The oleomargarine tax was held constitutional by the Supreme Court in *McCray vs. United States* in 1904. The Court held that the tax 'on its face' was a revenue act—it looked just like any other taxing statute—and the Court declined to concern itself with the economic effect of the tax, or the motives which led Congress to levy it."²

² Robert E. Cushman in "What's Happening to Our Constitution?," New York, Public Affairs Committee, 1942.

Chapter 12

NATIONAL SOCIAL MINIMA

If we would guide by the light of reason, we must let our minds be bold.

—LOUIS D. BRANDEIS

WHEN the second day of July, 1862, dawned, the Civil War was absorbing the attention of the people. In many communities, preparations for celebrating the Fourth of July were under way. On that day, in the midst of the war duties, President Lincoln took his pen in hand to sign the Morrill Bill, which granted public lands to the states for the purpose of enabling them to establish educational institutions, chiefly agricultural colleges. The bill had been introduced by a young Congressman from Vermont, Justin Smith Morrill, who entered the House of Representatives in 1854 and first introduced his bill in 1857. The bill of the proud Congressman had had hard sledding. An opponent in Congress said it represented "robbing of the Treasury for the purpose of bribing the states." But in 1942 Congress was still at the same process. It was appropriating annually \$57,643,128 in the form of grants in aid to the states for four types of agricultural education and research. And it was no longer thought of as "robbery."

In the years since 1862, many other steps have been taken to promote security, to equalize opportunities, and, in a sense, to redistribute the varied income of the people. These were unmistakably in the direction of standards of "national social minima," to use the term of Sidney and Beatrice Webb. Within the states, considerable experimentation was also under way. In more than half the states it was the practice to set up equali-

zation funds, which enabled the communities with the best resources to assist those less fortunate to provide a certain minimum of public education for every child, no matter where he lived. On a national basis, it is now the policy to move toward the establishment for large groups in our population national minima in such as wages, leisure (maximum hours), old-age insurance, public health facilities, unemployment compensation, designated educational opportunities, and others.

STANDARDS OF WAGES AND HOURS

Long struggles toward establishing national standards for minimum wages and maximum hours culminated in the Fair Labor Standards Act of 1938, enforced by an administrator in the Department of Labor. The law applies with important exceptions to interstate industries only, but recent court interpretations indicate a liberal construction of what is "interstate." Nevertheless, many local industries, service trades and retail enterprises are obviously not included. (The intrastate trades were the bane of the N.R.A. code authorities—evasion was prevalent and enforcement difficult.) The law of 1938 fixed a flat minimum wage of twenty-five cents an hour for all workers affected for the first year, thirty cents an hour during the next six years, and thirty-five cents an hour thereafter. At any time, however, the prevailing rate of an industry may be set by the administrator as high as forty cents or as low as thirty cents an hour, following recommendations of a representative committee of the industry, on which employers and employees are equally represented. The federal act provided for a combination of the "flat-rate" and the "wage-board" method of revision, and the Supreme Court in February, 1941, unanimously held that the law was a valid regulation by Congress under the Commerce Clause.

The National Fair Labor Standards Act also fixed standards

for maximum hours for all employees. Throughout the history of social legislation it had been difficult to persuade legislatures to fix standards for maximum hours for men. The first broad attempt at such regulation was the N.R.A., which functioned only between 1933 and 1935. Effective October 1, 1938, the Labor Standards Act established a basic forty-four hour week for the first year of operation, a forty-two hour week for the second year, and a forty-hour week thereafter. This limit may be exceeded by the payment of time and a half for overtime.

LIMITED CHILD LABOR LAWS

Three recent "limited" Child Labor Laws have been enacted, reviving earlier attempts at regulation by federal statute, after two previous laws had been declared unconstitutional. The Walsh-Healey Act of 1936 provided simply that federal contractors supplying the government with materials valued at over \$10,000 must certify that they have not employed boys under sixteen years of age or girls under eighteen for work on the contract. The Sugar Act of 1937 required that the Secretary of Agriculture in paying benefits to cane and beet growers shall make a condition that no child between fourteen and sixteen years of age shall be employed for more than eight hours in producing or harvesting the crop.

The Fair Labor Standards Act of 1938, whose wage and hour provisions were summarized above, prohibited traffic in interstate commerce in any goods produced in the United States in establishments where children under sixteen years of age have been employed in the preceding thirty days. The same prohibition applied for products of workers between sixteen and eighteen years of age if employed in an occupation declared to be "extra-hazardous." These measures do not apply to

agricultural employment outside of school hours, or to child actors in motion picture or theatrical productions.

A proposed amendment to the Constitution, empowering Congress to "limit, regulate and prohibit the labor of persons under 18 years of age," has been ratified by twenty-four states. Since the Fair Labor Standards Act does not apply to intrastate industry, mercantile establishments, hotels, street trade and the like, federal regulation of child labor in this type of industry, and in industrialized agriculture, can probably be accomplished only by passage of this Amendment.

TOWARD SOCIAL SECURITY

Possibly the widespread public interest in national social minima has come about as a result of what we ordinarily call social security legislation. This law of 1935 established two systems of social insurance, and made numerous grants in aid to the states for health and child welfare services. In fact, this act started no less than twelve national social programs. The Social Security Board, however, administers only one complete national system of social insurance—that providing for old age and survivors' insurance. For this system, wage accounts had been started for over 59,000,000 persons by the end of the fiscal year 1942. Benefits are financed by equal taxes upon employer and employee. The rates for both are 1 per cent of the employee's wages, exclusive of amounts over \$3,000 paid to one employee in one year. However, certain types of employment are excepted, including agricultural workers, domestic servants, casual labor, employees of state and local governments, and workers in nonprofit voluntary and religious agencies. Railroad employees are also excepted because they are covered by a separate national retirement system.

The amount of monthly benefit is determined on the basis of the workers' average monthly wage prior to age sixty-five.

For example, a single person having had an average monthly wage of \$100 would receive monthly benefits, after ten years of coverage, of \$27.50, or \$32.50 monthly after thirty years of coverage. When an insured worker is eligible for monthly benefits at age sixty-five, supplemental benefits are also provided for a wife sixty-five years of age and over and for unmarried dependent children under sixteen years of age, or under eighteen if regularly attending school. The supplementary benefit for each is one-half the worker's benefit. The maximum benefit, however, cannot exceed \$85.00 a month for a family.

Benefits began to be paid on January 1, 1940, and in 1942, about 250,000 persons were receiving payments. Although accounts have been begun for 59,000,000 persons, there are large "gaps" in the program. In order to fill one of these gaps, a system of federal "old-age assistance" was enacted in order to enable the states to make payments to needy, aged persons already beyond age sixty-five. The national government will pay one-half of a total payment of \$40.00 a month made by a state to one individual. In May, 1942, about 2,248,000 persons received from state and federal sources the sum of \$48,899,000. The federal *insurance* system, for example, does not apply to those disabled by accident or sickness before reaching age sixty-five; the wives and widows of older men who have not themselves reached age sixty-five; those whose work is too irregular to qualify them.

SECURITY OF EMPLOYMENT

Toward security of employment, two important national measures were authorized. The United States Employment Service, begun in 1933 on the basis of state-national cooperation and federalized in early 1942, offers its facilities for the placement of workers in available jobs through 1,500 public offices in cities and towns, manned by full-time personnel. In

addition, there were 3,000 offices with part-time workers, and "itinerant services."

Unemployment compensation benefits are paid by state unemployment systems which are administered with federal cooperation. National grants are made to the states to cover the costs of administration, and employers are allowed credits to the extent of 90 per cent for their contributions to a state unemployment fund against the federal unemployment tax. The federal unemployment levy is an "excise" tax levied upon the payroll of employers having eight or more employees. The tax amounts to 3 per cent of wages paid, exclusive of amounts over \$3,000 to one employee in one year, and must be paid by the employer. Exceptions made are generally the same as for the groups under old-age and survivors' insurance, mentioned above.

By July 31, 1937, all the states and territories had enacted unemployment insurance laws. By June 30, 1939, varied benefits under them had been paid in every state. As of June 30, 1942, more than 37,000,000 employees had wage credits in the state systems. Total benefits paid out on that date amounted to \$2,027,056,109. The benefits available to an individual depend upon rate of wage and period of service. In 1942, the maximum payments possible were at the rate of \$18.44 weekly, for a period of not over twenty weeks.

Recipients of nine types of "public assistance," state and local, and the federal work programs, were detailed in monthly reports of the Bureau of Public Assistance of the Social Security Board. With the exception of general relief, which was the exclusive responsibility of states and localities, federal funds were available for the other special types of public assistance and work programs. In May, 1942, 8,900,000 persons in 3,700,000 households received some form of public assistance, or wages under federal work programs, the lowest figure since complete records were kept on January, 1933. Total payments

to these persons in that month amounted to \$141,600,000, including the \$48,899,000 of old-age assistance mentioned above as supplementary to old-age and survivors' insurance.

General relief paid by states, counties and municipalities averaged \$23.43, "per case," and was paid to 657,000 "cases." General relief by states and local governments was generally regarded as the weakest link among the various provisions for public assistance. Since 1935, this service has had to be carried on without federal grants in aid. The federal government has financed work programs, aid to the blind, aid to dependent children, and subsistence grants to destitute farm families through the Farm Security Administration.

Three other federal grants for child health and welfare have been administered by the Children's Bureau. These have been on a federal-state cooperative basis, and have resulted in notable improvements in health services for needy mothers and children, for crippled children, and for dependent and neglected children in danger of becoming delinquents. Federal funds for these purposes amounted to over \$11,000,000 annually.

HEALTH SERVICES

Every city takes its public health department for granted, but about half of our rural people have never had such facilities. In order to stimulate the establishment of county public health services, the United States Public Health Service has available \$11,000,000 annually to distribute to cooperating states and counties that match the funds. All states have cooperated to some extent. The present federal program was begun in 1935, when there were 762 counties with public health departments having full-time personnel. By June 30, 1941, full-time public health personnel was being provided in 1,669 counties, or 54 per cent of the 3,070 counties in the country.

Two measures looking toward an adequate minimum diet

for all persons were those named by the Food Stamp Plan and the School Lunch Program. In May, 1942, 3,094,800 persons received \$8,718,110 worth of food stamps good for commodities designated by the Agricultural Marketing Administration of U.S.D.A. The recipients of these stamps included persons who were on the relief rolls of cities, and others certified by relief agencies as in need of relief. The commodities distributed were those purchased from time to time by the Agricultural Marketing Administration because of the presence of large food surpluses in selected localities. The number of areas included amounted to 1,481. The plan was initiated as an experiment at Rochester, New York, in 1939. Secretary of Agriculture Wallace, when announcing the plan, said it promised to be an important health project, because it would enable undernourished families to secure surplus food. The maximum cost per month was about \$10,000,000, and a maximum of 20,000,000 persons had benefited, when the program was discontinued in 1943, for the duration of the war.

More than 5,000,000 pupils in 67,000 schools received lunches from food furnished by the federal government, at a retail value of \$4,000,000 a month, during the school year 1941-1942. Foods were furnished by the Agricultural Marketing Administration to state welfare agencies, which in turn made them available to schools. The federal foods simply supplemented other foods used in school lunches. Some pre-school children were also being fed in nursery schools conducted by the W.P.A. or by local welfare agencies. In summer, many children continued to receive the food at playgrounds and summer camps. About one-third of the children receiving school lunches come from low-income families not on relief. The program was consistent with many others that looked toward using the resources of the national government to help meet

needs that state and local governments were not meeting alone.

There was no state health insurance in the United States, except in the form of workmen's compensation in most states. The Venereal Disease Act of 1938 made grants-in-aid of \$6,-000,000 annually for the support of public clinics. It helped to widen the attack on these diseases and assisted in the cure of over 50,000 persons annually, according to the Surgeon General.

WORK PROGRAMS

Federal work programs administered by the Work Projects Administration employed an average of 2,130,000 persons in the six year period ending June 30, 1941. It is estimated that the earnings of these workers contributed at one time or another to the support of 25,000,000 persons. W.P.A. erected and improved an average of ten public buildings per county; built or improved 600,000 miles of roads, or an average of 200 miles per county; 17,100 athletic fields and playgrounds; 7,800 parks. Its workers helped to prepare school lunches in 22,000 schools. In 1941, W.P.A. teachers had a total enrolment in adult classes of 765,000 persons. For public libraries more than 85,000,000 books were repaired in the six years. More than 250 hospitals were constructed or enlarged. The report on the arts lists the production of 146,000 paintings, prints and designs. W.P.A. was abolished in 1943, when wartime employment had reached new high levels.

In 1941, 91.8 per cent of the rural people were without local library service, exactly the same proportion as in 1938, the American Library Association estimated. Out of 3,070 counties, 632 were still without a single public library. Library extension leaders looked most hopefully to federal grants in aid for libraries. Federal funds for education have been mainly for agriculture and home economics, already referred to. The National Youth Administration and the Civilian Conservation

Corps (abolished in 1942) both promoted extensive educational projects. W.P.A., as we have seen, employed numerous teachers of special subjects. In 1942, the Office of Education made an appeal to Congress for federal grants of funds to students of technical subjects to enable them to finish their college education, and also to other selected students in need of funds. In 1942, the United States Senate had on its calendar the Educational Finance Bill, which would authorize payments of \$300,000,000 to the states for the support of elementary and secondary education, to be distributed in accordance with the financial needs of the state.

PUBLIC HOUSING

The demolition of unsafe, unsanitary houses, and their replacement by decent dwellings, was being carried on by federal funds and credit. Some references to governmental activities have been made in Chapter 10, "Public Credit." The use of public funds for rehousing the low-income groups has been the special responsibility of the Federal Public Housing Authority, formerly United States Housing Authority. The Federal Public Housing Authority makes loans to local public housing authorities, and also is authorized to make annual contributions or "subsidies" of not more than \$28,000,000 to public agencies to assist them in maintaining the low-rent character of their projects. These publicly erected buildings have been of the slum-clearance type. The average monthly shelter rental approved by the Authority is \$10.48 in the South, and \$14.73 in the North. The estimated average income of the families housed is \$824 a year. As of June 30, 1941, the Authority had approved contracts with 250 local public bodies totaling \$721,275,000 in 34 states, for the construction of 170,116 new homes. As of that date 66,057 unsanitary dwellings had been eliminated and 68,791 new homes were already occupied. In late 1941, the

Authority "went to war," and all its energies were given to emergency housing of defense workers, for whom 675,000 homes were being erected during 1942 and 1943, by all federal housing agencies.

WILL OUR MINDS BE BOLD?

All of which means that we have made "mild gains," but have not let our minds be bold. In England, the report by Sir William Beveridge, "Social Insurance and Allied Services," proposed broad social security measures, including a minimum subsistence income in case of disability or unemployment, with beneficiaries contributing from their wages. It called for insurance benefits based upon family needs. It advocated a complete system of social security. In the United States, the National Resources Planning Board placed before Congress plans for a comprehensive social insurance system.

Anyone who knows anything about the United States knows about the diversity in the economic resources of the various states, and that no state is an economic unit. Also, there are more children in the families living in the country than in those resident in cities; most of the Negroes are in the poor states; migratory workers, farm laborers, sharecroppers, household servants and many seasonal, unskilled workers have lived below subsistence levels. These basic social conditions called for both vision and adequate techniques of social engineering. Equity and justice for large groups of our people "cried aloud" for broad national social programs, and for devotion and skill from social leaders.

Yet we have hesitated even to bring employees of colleges, social agencies, hospitals, and lay workers in religious organizations, into the system of old-age and survivors' insurance. Many self-employed people were petitioning the Social Security Board for such coverage. Those interested in schools in the

numerous small communities seemed generally to favor federal grants-in-aid, yet the bills to bring this about made no headway in Congress. Many are convinced that if we are to have social decency in the postwar world, we are called upon really to establish national social minima.

PART V: IN WHAT DIRECTIONS?

Chapter 13

INTERNATIONAL COOPERATION

Physically, the world is now one and interdependent. Only human beings—interested that men everywhere have a society of peace, of security, of opportunity, of growth in cooperation—can assure its being made *morally* one.¹

—JOHN DEWEY

WE HAVE now looked at two broad streams of American economic life, and their tributaries. First, we have seen something of the growth of peoples' organizations generally labeled voluntary, pointing toward a self-contained producer-consumer, cooperative system. Second, we have sketched certain major trends in the growth of peoples' agencies generally labeled governmental. We have also noted that these developments are interdependent. If these streams are to flow on, and become stronger popular institutions making for a fully democratic economy, what are the further ways and means?

Many of the ways and means have, of course, been implicit and explicit in our text. The people are organizing in various ways, and the people are more competent in handling these techniques than ever before in this nation. Three other areas need, however, to be explored in this study of peoples' institutions. One is the obviously practical matter of international cooperation in an interdependent world. The next is an inquiry about economic duties as well as rights, about the disciplines and the motives, and the educational processes, that seem essential. Third, we need to explore and try to state clearly the general directions that should be staked out for our strategy in this critical era of transition. "We are all children of transition,"

¹ By permission of the author and of Pan American Airways System.

it has been said. But what are we in transit to, and, more important, what *should* we be in transit to?

PEOPLES' INTERNATIONAL COOPERATION

As we take up international cooperation, we are forced to select carefully from the great mass of literature, expressing many ideas, flowing from many agencies. We choose to emphasize here something not frequently mentioned by others—international economic organization of the peoples, separate from any international organization of which the political states may be the members. Since this is related to the cooperation of states, we start with brief references to the political area, where it seems public interest in the United States has been highest.

Such international order and law as the world had painfully attained was rudely shaken by World War I, and its aftermath, and has now, it seems, been almost destroyed by World War II, and the events leading up to it. This means that the total situation is so grave, that the wisest seem now to be saying that the best the world can do is to have a long cooling off period, after a United Nations victory, in which the healing and constructive forces may have time to become effective. This exceedingly complex international situation has, of course, greatly influenced the statements of war aims and peace aims.

PLEDGES IN ATLANTIC CHARTER

Among statements of war aims, the Atlantic Charter has perhaps the highest official status. But Prime Minister Churchill and President Roosevelt were in somewhat different positions when they made known "certain common principles" in the national policies of their respective countries. The United States was not at war on August 14, 1941. Further, a British Prime Minister is always more directly responsible to the House

of Commons than is a President of the United States to Congress. The Atlantic Charter has never been before Congress. These two statesmen said they based "their hopes for a better future for the world" on eight points, here summarized. They seek no aggrandizement. Territorial changes must accord with the freely expressed wishes of peoples concerned. All peoples have the sovereign right of self-government. These statesmen will strive to further access of all nations to trade and raw materials on equal terms, "with due respect for their existing obligations." After destruction of the Nazi tyranny, they hope to see a peace in which all people will dwell in safety in their own boundaries, and in freedom of fear and want. All men should travel the seas without hindrance. They favor the establishment of a wide and permanent system of general security and practical measures to lighten the burden of armaments. There has been no "Pacific Charter," but President Roosevelt has stated that these common principles also apply to the Pacific area. The representatives of the United Nations, meeting in Washington in January, 1942, subscribed to the Atlantic Charter, and added "freedom of religion" as another of their aims.

THE FOUR FREEDOMS

The four freedoms were first declared as aims of the United States by President Roosevelt in a message to Congress in January, 1941. They are freedom of speech, freedom of religion, freedom from fear (of invasion), and freedom from want. They thus add an economic aim to the more familiar civil and religious liberties, and President Roosevelt frequently put special emphasis upon freedom from want.

Vice-President Wallace also made two notable declarations. In the January, 1942, *Atlantic* he wrote on "Foundations of the Peace," in which he said that international security could

not be achieved by building another international league alone. We must recognize the world for what it is, "an economic unit." We must have economic security everywhere, or else political democracy would be unstable. We must have broad, friendly trade. We must think of the foundations of the peace as we labored to win the war.

The one that came closest to voicing the aspirations of great numbers of people was the Free World speech of May, 1942. Here Mr. Wallace spoke of the "peoples' revolution" in behalf of economic opportunity and security. He spoke of the right and ability of anyone anywhere to drink a quart of milk a day. He said we were not a master race, any more than the Nazis, that the twentieth century was not an "American century." He expressed the fervent hope that it would become one of the common man. The daily newspaper press did not, or would not, publish the speech. But within two weeks it was everybody's property, and in a very short time, five million copies had been mailed out by a score of agencies. One corporation ran it as a full page ad.

Soon came Under-Secretary Welles to declare imperialism must end, and also discriminations against people because of race. He did not say directly that while we fight for a Free China, we have a law on our statute books that would prevent the valiant General Chiang Kai-shek, and his valiant wife, from becoming American citizens. Then came Secretary Hull, who spoke in practical terms of the necessity of effective machinery for international cooperation. He who had devoted his long and useful life to promoting mutual aid in terms of international trade made again a plea for plans to restore wide commerce between nations.

For the long pull, we had statements aplenty of fine general goals. A hundred organizations and governmental agencies had formulated goals and plans. Indeed, all we needed to do was to

declare for international life what we had found good in other relationships. The problems were not so much of goals as of methods, not so much in the nature of the what, but of the how. For a considerable period at the close of the war, we—that is, the United States—would need to feed large populations. That seemed clear. Some cooperators boldly declared this should be done cooperatively, so far as possible, that the savings of the voluntary associations should be freely given to provide the food, that workers should be sent out by cooperatives to administer programs of relief. It was also evident that the victor nations would have a long hard job of policing. When one went further into the era of transition, the ideas varied considerably.

INTERNATIONAL ORGANIZATION

Tennyson's dream of the federation of the world, after the battles of the navies of the air, as foretold in "Locksley Hall," was brought out by more than a few. World government was boldly advocated. All nations had to give up some of their sovereignty. Others spoke more cautiously of "some sort" of international organization with very limited powers. Some of these thought it would be most practical to broaden the League of Nations, and set up an international police force. Through it all, the League lived on in Geneva, and most of its members continued to pay dues. Others thought that for a long time there would just be policing, by rough agreements among Great Britain, the United States, the Soviet Union and China. There was some expectation, and hope, of a "Pax Anglo-Americana." Those who had limited themselves to the American Century soon quieted down—the phrase had caused too much anxiety in every British breast.

Broad economic collaboration was, of course, widely advocated. Most of those who mentioned it assumed it would be under the direction of governments, for the purpose of broad-

ening international trade. During the past fifteen years, governmental agencies of one sort or another directly controlled most international trade. All sorts of quotas, embargoes and rigid agreements directed the courses of trade. Under governmental leadership, trade had been strangled, not broadened, Secretary Hull's program of mutual aid through reciprocal trade being a conspicuous exception.

There were those who believed the International Labor Organization, strengthened and enlarged, should be the international economic organization. The I.L.O. also lived on. Its headquarters had been moved to Montreal. Many of its essential services were maintained. It held conferences, issued publications, even continued to report on cooperatives throughout the world, the occupied countries included. The government of the United States had become a full member of the I.L.O. in 1934. Labor, management and the public, through governments, had achieved much by way of social standards and international agreements. But the I.L.O., while having the advantage of official status, also had its limitations.

A SEPARATE PEOPLES' AGENCY

An editorial in *Consumers Cooperation* for July, 1942, probably best stated the case for an economic international peoples' organization, separate from official agencies. There should be "a World Economic Association alongside a World Political Association." If a world democracy is to be built, we must recognize "the necessity of the organization of economic functions separate from political functions." We must not, it was said, glibly line up economics and politics together, and assume that economic functions will "be controlled by some form of world political organization." "Today the mighty struggle is over the separation of the functions of the State and the Economy. For if full democracy is to be achieved eventually in

the United States, as well as in the world, this separation must take place." It is undesirable "if either the State or the Economy permanently control the other." "It can only result in a measure of dictatorship, since the control will be external and, accordingly, undemocratic. Democracy requires control from within, as well as from below."

The editorial went on: "The International Cooperative Alliance represents the embryo of such a World Economic Association, as the League of Nations represents the embryo of a World Political Association, and . . . the first has proven to be even stronger than the second—weak as it has been." (The International Cooperative Alliance, a federation of cooperative associations, was formed in 1895, and has recently had in 40 countries, a total constituency of 100,000,000 members. Its headquarters has been in London.) Cooperators in all nations are called upon to educate the public regarding the progress already made in the federation of these independent peoples' associations, to prepare to have a part in the making of the peace, and to help to "develop an economic organization independent of a political organization but interdependent with it."

Contending that the interests of government are much broader than economics, Donald Davidson wrote in an article in the April, 1939, *Review of Politics*: "Economics is too narrow a foundation for a general political theory. Or, worse still, a politics founded on economics is not politics at all, but the negation of politics; and a government which devotes itself exclusively to economic concerns is not a government but a function of the economic system. When specialization has gone that far, it really does not matter much whether the economic system controls the government, or the government controls the economic system. Under either control, human life tends to become servile and corrupt."

The International Cooperative Alliance could point to a large

prewar volume of international trade among the cooperatives of various nations. Here was the promising beginning of what the cooperative leaders envisaged with the growth of cooperative economies in various nations. In the United States, several co-ops had an extensive experience. Co-ops in Scotland, for example, were members of the Consumers Cooperative Association at North Kansas City, Mo. From the oil blending plant there, co-op oil went, in prewar days, to Scotland, Belgium, France, Rumania and Estonia. Co-op wheat went from Canada and the United States to co-op mills in England. Cooperative wholesalers of twenty-seven countries were members of the International Cooperative Wholesale Society. Co-ops were demonstrating their ability to promote mutual aid through international trade.

"A COOPERATIVE WORLD PROGRAM"

As a first step in stimulating the thought and action of cooperatives here and abroad, the board of directors of the Cooperative League of the U.S.A. has made a series of comprehensive recommendations to the International Cooperative Alliance, at the request of the alliance. They constitute a suggested world program for the eventual establishment of a cooperative economy. Since this program speaks for itself, it is given here in full:

The present war is in large part a result of the international competitive pressures of the profit system, the conflict between that system and expanding stateism, the decline of democracy and the desire for imperialistic expansion which these engender. To better the world condition, an economy must be built which offers a way of fully supplying human needs, and which is free from the hostility-promoting factors existent in the profit system and in autocratic stateism.

A way is needed that shall be established upon the basis of democracy, which is capable of producing and distributing abundance, which prospers by plenty for all, which sets men and nations working

together in the spirit of mutual aid, and which can embrace all people of all classes and of all nations.

The cooperative method has been tried, has proved its power to serve these ends, is already established, and possesses the possibilities of constantly continuing its expansion.

COOPERATIVE PROGRAM

1. The people of all nations, recognizing the decline of dominance of the profit system, should promote understanding of the cooperative economy. This should be done through every available agency—the cooperatives, farm and labor organizations, the schools, the press, the state, the church and personal contacts. Consumers should be shown how to supply their needs by the cooperative method.

2. The existing cooperatives in all countries should employ every device, which a hundred years of experience have tested, to strengthen and expand their organizations and to increase the commodities and services which they supply.

3. The members of cooperative societies, in countries where their societies have been damaged, retarded, or destroyed by hostile stateism, should rehabilitate their societies and re-establish them upon a truly cooperative basis; and wherever necessary they should be assisted by other cooperative societies and by the International Cooperative Alliance.

4. Education should be carried on which should show the public, as well as the officials of political governments, that the interests of the people can be served by the promotion of cooperation.

5. In countries in which the cooperatives have expanded until the majority of the citizens are members of cooperative societies, and accordingly a majority in the parliaments and other legislative bodies are cooperators, in such countries the governments should promote cooperation among the people by furthering information and education; and as state business decreases, voluntary cooperative action should be found to increase.

6. Cooperatives should be established as a way of carrying on business on a non-profit basis, and their expansion should depend on their ability to demonstrate their superiority in supplying human needs and in promoting justice and harmony among men.

7. The aim should be: (a) local organization of people as con-

sumers into voluntary cooperative associations to supply their needs; (b) district and national organization of local consumers' associations into federations for education, finance, wholesaling, and production; and (c) the federation of national cooperatives into the International Cooperative Alliance for international protection, commerce, and production.

8. A Congress of the International Cooperative Alliance should be called as soon as delegate representatives of at least one-half of the member societies can be assembled.

METHODS

1. Democracy should be secured by one vote only for each member of a society and by every other means for promoting democracy and for preventing autocracy. By democracy should be understood equality of responsibility as well as equality of opportunity. While centralized administration should prevail in the interest of efficiency, decentralized control should prevail in the interest of democracy.

2. Membership open to all should be the rule in cooperative societies.

3. The business of cooperative societies should be carried on for the service of the members in directly supplying their wants, and not for the purpose of selling goods or services to others for the sake of making profit; the difference between the cost price and the distributing price should be returned to patron members of cooperative associations in proportion to their patronage.

4. Neutrality in the official acts of cooperative societies should prevail in matters of politics, religion and race, so that people of all opinions may find a common ground for union.

5. Cooperative associations should recognize the right of their employees to organize into labor unions without interference for the purpose of collective bargaining; cooperatives should give preference to the products of organized labor and of farmers' marketing associations.

6. Mediation and arbitration of differences between employers and employees and between different cooperative societies should be provided to settle all disputes.

7. While the cooperative democracy is being built, a constructive, conciliatory attitude should be maintained toward existing profit business and toward the existing political state with which cooperation is in contact.

8. Peace should first be promoted by the development of local cooperative businesses, among which economic competition does not prevail; it should also be advanced by the expansion of the cooperative method in international commerce, and thus substitute international service for the international cooperative quest for trade.

OBJECTIVES

1. The cooperative program should aim toward a non-political worldwide organization of people in the economic field for the supplying of goods and services.

2. As the economic wants of the people are supplied, there should be less need for the coercive control of men; this function of the state should be made to decline; and economic organization should gradually make dependence on the political organization of society less necessary.

3. In the place of political governments having totalitarian control over the property and lives of the people, a cooperative democracy should be built, in which the freedom of the people should be represented in voluntary action; in which the producers should be organized as consumers, and able consumers as producers; in which the organized consumers should cooperate with the organized producers; in which the consumers should produce what they use; in which useful service should be the means of livelihood; and in which producers enjoy all the fruits of their labor.

4. Economy of abundance should be substituted for the economy of scarcity.

5. Money should have a value only for the purposes of accounting, record and exchange.

6. War should be made impossible through the cooperative method, by establishing mutual aid in the place of hostile economic competition and in the place of racial and other conflicts.

7. The following further objectives should be brought about ultimately by the expansion of the cooperative economy: (a) self-determination of all peoples; (b) freedom in speech, religion, education, assembly and suffrage; (c) freedom in international exchange, commerce and intercourse; (d) the elimination of military armaments; and (e) the ultimate breaking down of hostility-provoking nationalism and substituting the united peoples of the world in its place.

SOME IMMEDIATE TESTS

While the war is on, we are as a people being subjected to tests of our intentions and our will to engage in international economic cooperation. Will the informal meetings of representatives of the United Nations become the instruments of forging international cooperative policies, and will the Congress of the United States approve them? What *kind* of relief and rehabilitation will we carry on in the countries our armies occupy. Will we do relief and rehabilitation work so as to stimulate cooperative economic activities among these people?

What will we plan to do about our synthetic rubber plants? Will we keep them going after the war, and try not to think about the welfare of the people who once produced the rubber trees? Will we link our international economic cooperation with the idea of full employment at home, and engage in the free exchange of our surplus production for the surplus production of other nations? Will we continue the exchange of goods on the lease-lend idea after the war, or cut it off promptly? Will we continue our search for mutual aid through reciprocal trade, or will we keep our tariff walls high? Will we have international vision and also set up international cooperative economic agencies?

Chapter 14

DUTIES AND RIGHTS

We gain nothing by exchanging the tyranny of capital for the tyranny of labor.¹

—LOUIS D. BRANDEIS

WILL we make further progress toward a cooperative economy if we formulate a new bill of economic rights, and also a bill of duties? In the United States the Bill of Rights means the first amendment to the Constitution, in force December 15, 1791. The bill there enumerated, under 10 articles, freedom of speech, press, religion and assembly, and the rights of petition and trial by jury, etc. There is much evidence, as seen in Chapter 12, on "National Social Minima," that by a long list of laws we have been moving toward the establishment of certain economic rights and opportunities for all citizens. Recent discussions of an economic bill of rights for citizens have also taken place in England, and one of the most challenging formulations came from the pen of Geoffrey Crowther, editor of *The Economist* of London.

ECONOMIC RIGHTS

Mr. Crowther, writing in the *New York Times* for October 20, 1940, on a "Program For a Dynamic Democracy," declared:

The citizen of a democracy should be guaranteed not merely his political liberties, but also the economic minimum without which the pursuit of happiness is an empty phrase. In this conception of a Bill of Human Rights, the individual would be guaranteed, merely by virtue of his citizenship, a certain minimum of food, clothing and decent shelter.

¹ *Business, A Profession*, copyright, Boston: Robert T. Hale and Company.

He would be assured of a sufficiency if he failed, through any of the accidents of life, such as unemployment, old age or injury, to be able to earn his own living.

Whatever his economic standing, he would have access to full and careful medical attention.

He would have education to develop all his capacities

Above all, the community would see to it that the blessing of children did not march hand in hand with the curse of poverty, every parent would be assured of the wherewithal to provide his children with the elementary necessities of life.

There is no reason why this should sound like a distant dream . . . Nor should such a national minimum be too costly for the community to bear.

Stuart Chase, in *Goals for America*,² put down the "big five" rights of every man, woman and child, as follows:

Food
Shelter
Clothing
Health care
Education

The National Resources Planning Board, in its annual report for 1942, stated that new declarations of personal rights must now include:

1. The right to work, usefully and creatively through the productive years.
2. The right to fair play, adequate to command the necessities and amenities of life in exchange for work, ideas, thrift and other socially valuable service.
3. The right to adequate food, clothing, shelter and medical care.
4. The right to security, with freedom from fear of old age, want, dependency, sickness, unemployment and accident.
5. The right to live in a system of free enterprise, free from compulsory labor, irresponsible private power, arbitrary public authority and unregulated monopolies.
6. The right to come and go, to speak or to be silent, free from the spyings of secret political police.

² Twentieth Century Fund. New York. 1942.

7. The right to equality before the law, with equal access to justice in fact.

8. The right to education, for work, for citizenship and for personal growth and happiness.

9. The right to rest, recreation and adventure, the opportunity to enjoy life and take part in advancing civilization.

ECONOMIC DUTIES

But, Mr. Crowther added: "A community can guarantee benefits to its members only through their *cooperation* (italics mine), and this too needs to be brought within our new vision of the democratic community. If the state guarantees a minimum of rights to the citizen, then the citizen has a minimum of duties to the state." Mr. Crowther mentioned the obligation of the citizen to defend his nation, to assist in conserving resources, to perform voluntary social services—an "endless field for service."

Probably the ablest statement of a bill of duties came from Vice-President Wallace, who enumerated economic as well as political duties in the *American Magazine* for July, 1941. Mr. Wallace had earlier written in his book, *Whose Constitution*, that the only way to save and complete our democracy was "to develop the genuine cooperative ideal to the limit. . . . The cooperative way of life must pervade the community, and this means there must be consumers' cooperatives as well as producers' cooperatives." Mr. Wallace was long a friend of George W. Russell (AE) and they were largely in agreement in their social philosophies.

This is what Vice-President Wallace tentatively put forward:

A BILL OF DUTIES

1. The duty to think, every day, how I can best serve the general welfare, to put it ahead of the welfare of my party, of my group, of my region, and of myself.

2. The duty to make democracy efficient by working harder and more harmoniously every day to produce the products most needed.

3. The duty to provide government mechanisms to enable our power of consumption to equal our power of production.
4. The duty to work for an economic democracy to match our political democracy, where the right to a job will be as definite as the right to a vote.
5. The duty to study and know our country, and to see it as an inter-dependent whole.
6. The duty of order, not imposed from above, but coming from the individual human heart.
7. The duty of observing the spirit as well as the letter of the Bill of Rights.

LIFE, LIBERTY AND PROPERTY

Property was linked by John Locke with life and liberty. We have forgotten that, because Thomas Jefferson wrote "life, liberty and the pursuit of happiness." In these latter days many thoughtful people are reconsidering the relation of property to happiness, liberty and life. Experience seems to indicate that the people can only control what they own. Yet property has been slipping out of the hands of the people. On the farms, as well as in the cities, the trend has been toward tenancy. Between 1930 and 1940, the proportion of homes owned by occupants decreased as follows: in urban areas, from 43.4 per cent to 37.5 per cent, in rural farm areas from 53.9 per cent to 53.2 per cent, in rural nonfarm areas from 53.7 per cent to 51.7 per cent.

"Every man has by nature the right to possess property." These were the words of a Pope, Leo XIII, who wrote them in the now famous encyclical on "The Condition of Labor," in 1891. The wide diffusion of the ownership of property among individuals and families still stands as the best guarantee of economic and political liberty. This right of ownership must include land, homes, goods, and productive equipment, the last especially important in agriculture. "It is man's labor which gives value to property, and therefore everyone who works is entitled to rights in his own possessions," wrote Dr. David de

Sola Pool, in *Religion and the Good Society*, summing up the ancient Jewish laws. "The Hebrew word for 'work' also bears the meaning of property."

PROPERTY RIGHTS LIMITED

But having declared for personal ownership of property as an unalienable right, we must declare the corollary, that property rights are, and always should be, limited. The newly chosen Archbishop of Canterbury, Dr. William Temple, wrote in his book, *Christianity and the Social Order*,³ in favor of "the old principle that justifiable property is a right of administration and not a right to exclusive use." Property owners are stewards or trustees. The Jewish teaching was that the harvest was for all children. Those who own property must think of the rights of generations yet unborn in administering their property, if they would exercise social responsibility. For, as Benjamin Franklin put it, private property "is a creature of society." Elaborating this point, Professor Carl Becker wrote in *Modern Democracy*⁴: "The value of private property in the means of production is thus not a private matter. It is both cause and effect in the functioning of a highly integrated and delicately adjusted industrial structure that touches the public interest at every point."

GROUP OWNERSHIP

Obviously, not all property can be owned and operated for the general welfare by families and individuals. There must be some form of group or associated ownership. As we think beyond the family, the best safeguard of economic liberty will be found in cooperative ownership. In the cooperative economy, the people will own much property through cooperatives. They

³ Penguin Books, 1942.

⁴ Yale University Press, 1938.

will own and operate stores, factories, mines, etc., as we saw in Chapter 1, "Cooperative Purchasing." This socially responsible form of group property ownership should eventually replace the socially irresponsible group ownership which we see exemplified in the modern corporation.

Finally, the people, through democratic governments, will own and operate some property through state agencies, as we noted in Chapter 9, "Public Ownership." This is best limited, from the point of view of those who would preserve individual liberties, to the "utilities," broadly defined, of use to all the people. Cooperative ownership will serve best for the flexible and venturesome economic processes, public ownership for the more regular processes that pertain to all citizens. The public interest requires, however, that the political influences shall be minimized in the administration of public properties.

RACIAL MINORITIES

Democracy at its best, political and economic, provides for majority rule with due regard for the rights of minorities. The minority shall have the right, for example, to try to persuade the majority to its point of view. We come now to the most conspicuous delinquency of the American people. They have long tolerated conditions for minority peoples that have denied this most elemental concept of democracy. In the early days of World War II, there was much public outcry in the United States for a free India and for a free China. But what about political and economic freedom and opportunities for our own Negro population? What about our latent anti-Semitism, our neglect of the Indian, our exclusion of Orientals from citizenship?

Our inconsistencies are glaring enough for everyone to see. And the reasons for them can not be blamed on a lagging government. The President has shown a commendable interest in

our minority peoples. But Washington is often more of a mirror or reflector of public attitudes than it is a force to change them. The reasons for the shameful conditions are to be found in the moral—or immoral—attitudes of all of us. On this question, trade unions have much the same record as corporations. Most churches can be rated at about the same level as summer hotels, the North is like the South, the East like the West.

The scientists have done their part. There is no superior race, they say; all races have made significant contributions. Also, there is no pure race. The term race simply implies the inheritance of similar physical characteristics, but if these are accompanied by any especially valuable cultural or psychological qualities, science has not ascertained them.

It is the duty of those who would prepare for the cooperative economy to reconstruct society so as to assure full and free participation by members of racial minorities. This means that we must improve labor conditions for Negroes. It means abolition of the whole system of segregation and the discriminations that accompany it. Fortunately, the Rochdale Pioneers, worked out the basis of a society that had a strong economic foundation and that also appealed to our best moral sense—they declared that cooperatives should be open to all, without discrimination because of race, color or creed. They provided for a practical application of the great teaching: "We are members one of another." (Eph. 4:25.) They were in accord with religion high and true. Fortunately, too, the declarations of scientists on race sound much like those of the religionists.

PRESSURE GROUPS

When Henry A. Wallace was Secretary of Agriculture, he said in effect, after listening to the vehement demands of a delegation, that if the various economic groups could not learn to live more decently with one another, our society would be

smashed. This is no new problem, but it has been aggravated by the modern techniques of propaganda and public relations. James Madison, the father of the Constitution, wrote that one of the great functions of all government was the conciliation of the merchant interest, the transport interest, the agricultural interest, etc.

But as our society has developed we have also organized pressure groups almost to infinity. Professionals band the aged together to win pensions. Teachers employ legislative representatives to watch educational appropriations. For a long time our national government was much under the influence of manufacturers, merchants and financiers. Then came the farmers and workers, who took the leaflets from the business notebooks, and according to seasoned Washington observers, did at least as good a job as lobbyists as any business group. The New Deal was mainly under the influence of labor and agriculture. And much of the grief of modern public servants is due to an interminable conflict between pressure groups. The task that Madison sketched had become so huge that it was literally killing administrators in Washington day by day.

CONSUMERS AS CONCILIATORS

We advocates of a cooperative economy dare to prescribe for this grievous ill of society. We say the truly promising way out is the wide voluntary organization of consumers. Large numbers of well-organized consumers will perform in the realm of economic controversy somewhat the same functions as those performed by the great body of citizens in the political realm. Large, well-organized consumers' cooperatives may become the "common denominator" of all producing groups. This nation has overemphasized producer interest. Our welfare largely depends upon our discovery of, emphasis of, and organization of, consumer interest. We have made the beginning. We must

go on with it, because "consumer organization incarnates the public interest" much more effectively than the political state.

WITH WHAT MOTIVE?

These matters of duties and rights are in their final analysis highly personal. Opportunities for voluntary public services lie all around us. Yet only in time of war do people generally step forward to perform them. The story is told of the suburban matron who declared on meeting at a sewing group in 1942 the same people with whom she had served in 1918, "Isn't it great to be in harness again?" In the years between the wars she had done little constructive public service.

The indifferent habits of millions of us thus account largely for the slow growth of the movements making for a cooperative economy. Great capacities for generous association lie dormant within us. The current dangers of our laziness became the starting point of a scholarly and very timely article by Professor Wallace Stegner of Harvard University in the spring 1942 *Delphian Quarterly* on the "Little Man with the Purchasing Power": "If by our own laziness we force the state to take over more and more of the functions that we as citizens might handle (and that includes a great many economic functions) we are likely to find that the political revolutionaries have been before us, and that we have a collectivism of a kind we do not particularly like. . . ."

In the design of the universe, the capacity for generous cooperation was placed within us. "Cooperation has been a more important evolutionary force in the development of man than has the bitter competitive struggle for existence," declared Alfred Edmonds Emerson, biologist, before the American Association for the Advancement of Science in 1941. How can the creative forces within us be released and applied? Will it not be by a trust in the individual's personal spiritual powers, and by

magnifying the technique that is much more than a technique, the one the Rochdale Pioneers gave to the world for its inheritance?

Graham Carey, one of the ablest of the American distributists, wrote in *Free America* for January, 1941, that man cannot be happy "unless he *exercises* (*italics mine*) his special gifts for knowing what is true and willing what is good." And, Mr. Carey holds, his spiritual satisfactions can come to him only in a truly human and decentralized society. The cooperative movements supply the exercises for the spiritual athletes who must build the decentralized and human society.

LINKING IDEALISM AND STRATEGY

The idealists of the world have proclaimed the practicality of the great dreams of brotherhood, they have pointed to the miracles of changed personality, they have affirmed that the powers of the spirit are commensurate with its needs, they have encouraged mankind to appreciate what is highest and best—then they have usually not pointed to channels that will conserve and foster this idealism in social and economic arrangements.

It is the opportunity of our time to link this emphasis with the exercises and the channels provided by the cooperative economic movements. For most of us need to change both our moral attitudes and our techniques of social living, if the cooperative economy is to come. When people really appreciate what is highest, and respond to the best motivation they know—how do they act in their economic relationships? The reasonable answer has been made by James Myers in his *In Business for Service—Religious Implications of Consumers' Cooperation*. They will participate in "a system in which sound economics coincide with the fundamentals of religion . . . what a troubled world has been waiting for." In consumers' cooperation, and

other types of economic democracy, we find "the only moral form" of organization and government. This moral form of economic organization has important effects on people. It throws "upon the common people the responsibility for decisions of all kinds and thereby helps them to 'increase in wisdom,' to grow intellectually and morally, to develop in capacity, judgment and responsibility." In these organized efforts we have "soil congenial to the development of fullness of life for the individual," and "surroundings conducive to the growth of the dignity of human souls. . . ."

Chapter 15

BEYOND STATE CONTROL¹

Life is divided into two parts: the compulsory and the voluntary. They are like the sea and the land; they share the earth between them. The more there is of one, the less there is of the other. We, therefore, have our choice. We can develop in ourselves and in our nation a strong and fruitful spiritual life that creates uncompelled character and public spirit, or, if we fail in that, coercion will come flooding in like an encroaching sea. That is the inexorable alternative. One wishes one could shout it from the housetops. Either we are going to have more free spiritual life or else more legalistic compulsion.¹

—HARRY EMERSON FOSDICK

IN THE midst of total war, and its new situation for us, what purposes should be emphasized by those seeking to build the cooperative economy? What activities need be stressed? In what general directions should we try to move? "Full employment," for example, absorbs the attention of many people. We have fairly full employment during total war. Are we capable of maintaining it in the postwar era? How important is full employment? Is it, as some declare, a necessity if democracy is to continue? If we must avoid high unemployment, by what means should we try to do so? Should we try to do it by simply piling government debt on government debt? Should we do it solely by governmental leadership and, in our wish for security, turn the economy over to the state? Would we maintain freedom in that way? How free and how secure could our economy be? How vital would our voluntary enterprise be? Could we *rapidly* organize a cooperative economy, promising both freedom and security?

Since our entrance into World War II we have reached the period of state control of our economy toward which we had

¹ *Living Under Tension*, New York: Harper & Brothers, 1941.

been proceeding for some decades. Many other adjectives and nouns have been used to try to explain what we have. State agencies are regulating price, that all-important regulator under a profit economy. The state is controlling the volume of credit. It is applying taxes that carry forward the equalizing trend of previous years. It is regulating labor relations and wages, agricultural production and distribution, to a degree never before attempted. The government initiates the creation of capital and controls profits. It builds huge new plants. It capitalizes new industries, such as those for making synthetic rubber. It provides general public guidance of private policies and activities.

THE IMMEDIATE POSTWAR GOAL

Prior to World War II, we had had a relatively "mixed system." We had witnessed the extension of regulation, particularly of the large industries such as railroads, utilities, and others that had developed monopolistic tendencies. We had seen the growth of public ownership of utilities, the increase of cooperatives for purchasing, marketing and credit. The government had supplied public work for many millions of its citizens. The family type of farm and independent or free business had continued only against great odds. This was a far cry from the economy of the United States, let us say, after the Civil War. It was not a capitalist system at all, if we think of that as one in which there is private ownership of the means of production and distribution, in which individual initiative and profit supplied the drive.

We had not *generally* had the capitalist economy, or the free enterprise order, for a long time. The free enterprise order, or the laissez-faire system, had itself moved away from its origins when its leaders organized powerful corporations, and these corporations tended in many instances toward monopolies.

These great, integrated corporations, linked together for collaboration, at least, in institutes or trade associations, were something altogether different from the rugged individualism of the pioneers in American business, with its free competition among free men.

What could rugged individuals committed to free competition do if they wanted to enter the automobile manufacturing business in 1920 or 1930? How many could imitate the Henry Ford of a prior generation? The answer is obvious. The automobile manufacturing business was in the strong hands of half a dozen corporation. So that there is no such thing as an issue of the free enterprise order vs. the planned economy. Some discussions of these alleged alternatives only helped to obscure our attempts to view what would be likely after total war.

THE INESCAPABLE PLANNING

For the immediate future after the total war and its state control, the central economic issues seem rather to be, who will do the inescapable planning and *who will plan the planners?* Where will the emphasis be? Will it be possible to go back to the free enterprise of the 1870's? Will we return to dominance by the great corporations, as in the days of 1920-1930? Will we continue the heavy dose of governmental regulatory activities of the thirties, which left us with a mixed system? Will we have again the mixed system that had given much encouragement to the movements for a cooperative economy reviewed in this book? Will we never remove our economy from the governmental controls of total war?

It seems likely that we can avoid the last, because of the inherent strengths of the various forms of voluntary economic enterprise, and the probable mental climate regarding state controls. If that is granted, then our best hopes, in the early years after the war, seem to lie in the mixed system that will

provide sufficient flexibility and opportunity so that we can continue the development of the cooperative economy. A great many people think this is probable in the postwar period. The general direction of our building, however, should be to move away from a high degree of state control as rapidly as shall be possible.

One of our great "temptations" will be to tolerate much state control for the long run, to regard it as inevitable. There will be some feeling that we can work out our own moderate course of "stateism," avoiding the extreme regimentation seen abroad. Many of our people may feel that, having taken refuge in the government, the control of the economy should rest there.

APPRAISING STATEISM

The trend toward state control was brilliantly foretold by George W. Russell and others. But Russell and the other philosophers of the cooperative movements also had visions of what was good beyond it, and urged that it be regarded as only a temporary period. Let us admit that state control of the economy may have advantages over the anarchy of free competition, or the exploiting tendencies of the great corporations and monopolies. Under state control the ordinary people may have much more to say about their economic destinies, than they have ever before had to say in the United States.

But state control implies general obligatory or compulsory cooperation. It must of necessity make for coercion of minorities. It does not provide for that "direct ownership" by the people that enables the people directly to control property and that develops responsibility among the people. It is subject to the vagaries of political winds. It may become "remote control"—Washington is often far from the local community, as many have sadly discovered. State control unfortunately tends toward some measure of bureaucratic dictatorship, in which the people

presently find their dignity and their liberties slipping away. It tends toward the "servile state."

A clue for our guidance may be found in words of an address by the late Professor Philip Cabot of the Harvard School of Business Administration made at Chicago in 1941:

A free society is the master in which two servants, government and business, do the work. Sometimes business and government forget that they are the servants and think that they are the masters. In this country both have committed this sin . . .

But let no one deceive you. When either business or government usurps the sovereign powers of the people, it has violated the most sacred principles of a free society. . . .

THE GENERAL DIRECTION

Our general direction must, therefore, be toward the building of the producer-consumer, cooperative economy. It should be self-contained, independent. Its beginnings have already provided us with both a valid economic goal, and worthy techniques that enable us to move toward the goal. It is essentially decentralist, and therefore truly human. It exalts self-help and voluntarism. It provides a delicate balance between individual freedom and self-imposed economic controls. It is the most promising technique to bring in an economics of abundance. It will enable men to attain and maintain the inalienable rights of life, liberty and property, as John Locke put them. If given half a chance, it can become "the peoples' program of peace and plenty."

In terms of economic theory, the ultimate control in a cooperative economy is cost-control. This, says an editorial in the July, 1942, *Consumers Cooperation*,

was the revolutionary economic idea that the Rochdale weavers formulated. In a cooperative, there is no profit above cost. . . . Purchases are made at cost. Cost controls all exchanges of goods. Personal liberty as well as economic abundance are achieved. There can be no restrictions

from profit piling, because there are no profits. The only limitation on production, after supplying all the needs of all the people, is a surfeit of goods. The people are the owners and freely exercise control by comparing the cost of producing and distributing various commodities, and choosing which product they will purchase.

Those paragraphs present a goal, even an ideal, considering our present situation. What are the practical steps, in the minds of the cooperative leaders?

"Organize consumption by building consumers' cooperatives as the necessary step to planned production," answers *Consumers' Cooperation* for May, 1942, saying further that this is simply the specific step recommended by the Rochdale Pioneers. In the United States we have throughout our history overemphasized producer interest. The "consumer point of view" is now essential, even for promoting the welfare of producers, and especially for providing fair and effective conciliation among producing groups. But cooperatives among consumers must be organized much more rapidly than they have been in the past. Cooperatives among consumers must do a much larger proportion of the business of the nation before they can even become stabilizing influences in our economy. Fortunately, large numbers of young people and adults are showing active interest. Vice-President Wallace has written: "I believe the majority of American people are already receptive to the general purposes and possibilities of a cooperative commonwealth.

COOPERATION AMONG COOPERATORS

Cooperation among cooperators is an all too obvious need in our time. Cooperative leaders of all types of cooperative organizations need to be systematically conferring. If there have been misunderstandings, they make collaboration the more necessary. There have been all too few fruitful contacts between

the leaders of consumer and producer cooperatives. Yet an informal meeting recently held revealed the great common interests, and the discussion was summed up as follows by H. E. Babcock, then president of the National Council of Farmers' Cooperatives:

The group believe in the right, ability, duty and necessity of common people to work out their destiny on a voluntary basis. This premise calls for the increased use of the mechanism of cooperative action. Cooperative corporations should be available to all who desire to use them (both producer and consumer). The only difference between consumer and producer cooperatives is the difference in point of interest of members. . . . Producer and consumer cooperatives have many interests in common and . . . cooperation is an effective instrumentality available to both.

As one loses selfish interests one finds one's personality. This ancient lesson should be more widely applied. Representatives of all the peoples' organizations and agencies described in this book should be systematically conferring. This includes those in the labor movement, cooperative finance, purchasing and credit movements, those working for public ownership of utilities, etc.

THE DECENTRALIST IDEA

Fortunately for us the decentralist idea "still springs from the American earth," as John Chamberlain put it in "Blueprints for a New Society, IV: Borsodi and the Chesterbelloc," in the *New Republic* for January 1, 1940. Americans have had "a whole vital tradition of Jeffersonian democracy from which they could draw distributist inspiration." So that many Americans have made common cause with the English distributists. A symposium on the prospects of decentralization in the light of the governmental tendencies in the other direction, was published in *Free America* for January, 1941. Vigilance must be exercised, so that the centralization as a *means* of defense

and prosecution of war, shall not become an *end* of national policy—this was the general tenor of many of the contributions. Lewis Mumford was willing to write: "The current war probably marks the end of metropolitan aggrandizement." There were also those who thought that the war might actually accelerate some tendencies toward decentralization.

PRACTICAL VALUE OF COOPERATION

The high practical value of the cooperatives in furthering the official anti-inflation program was a case in point. More than one economist of a government agency is able to say of the anti-inflation program that cooperatives were doing in peacetime about what the government is asking the nation to do in wartime. Pleas are made for the control of installment buying and for the payment of personal debts. Many co-ops had preached and practiced cash buying for many years. The government is trying desperately to achieve stability of prices; so had the co-ops for decades. The government is rationing scarce commodities; the co-ops defended this technique as fairest to all consumers. The government encourages conservation to prevent profiteering, an old aim of the co-ops.

Thus the leaders of the cooperative movements accept no judgment that a high degree of centralization is inevitable after the war. They devote themselves to their practical strategies. For "on the side of the decentralists," as was said in an editorial in *Free America* for January, 1941, are "the things which men count most worthwhile, the home, the family, the region, and, above all, the human personality."

Finally, in the strategy of practical idealism, there is needed, E. R. Bowen has pointed out in a recent paper, a recognition of the need for free schools and free churches, as well as a free government and a free economy, in the free society.

In the course of human development, [Mr. Bowen writes] mankind has expressed its need of fellowship by setting up four great social organizations: church, school, government and business.

The need of such separate social organizations seems apparent. It is difficult to conceive, in a civilized society, of the handling of all four of these great social needs of mankind through a single organization. While there is a necessary interdependence between them, there is likewise a necessary independence. Not only are separate leaders selected for the handling of all four of these great functions, but generally separate buildings have been erected for the assembling of the people for their performance.

The proper place and functioning of each of these organizations has been one of the major concerns of mankind. . . .

Today, the great issue is the encroachment of politics into the fields of the three other social organizations—religion, education and economics—and its attempt to identify itself with and as a free society. This is, in large part, due to the failure of the people as yet to recognize the greater nature of a free society than that of any of the four social groups, and the organization of the functions of a free society, as an overall relationship between the groups, in which each is a participant. . . .

Each of the great social organizations of a free society must be self-controlled from within and below to be democratic. If they are controlled from without and from above, such control can only be by a measure of compulsion.

UNUSUAL RECOGNITION

As the advocates of a decentralist and truly human society labored on, they sometimes obtained recognition from unusual sources. In England, the American ambassador to the Court of St. James, Hon. John G. Winant, once Republican governor of New Hampshire, said in 1942 in an address before the miners of Durham: "Service democracy applied to economics is the great discovery and achievement of cooperation. Gigantic commercial and industrial undertakings are run by cooperators with conspicuous success, proving beyond any doubt to all

whose eyes and minds are not sealed by prejudice that service and not profit can drive the economic machine."

In the *Wall Street Journal* for September 2, 1942, Thomas F. Woodlock, the associate editor, wrote:

This old thing—the cooperative movement—is today, as it has never been before, a living answer to some of the problems . . . planned economy, for instance, and even "democracy" itself. . . . It began a hundred years ago with a mere handful of men and an idea. . . . There is not the smallest sign that its growth may not continue wherever there is any real freedom for action. It *is* the "democracy" of which we are all talking . . . It is an outstanding example of order in a world with chaos all around it; it is a real "planned economy." As such it is the very exemplar of the proper way to "plan."

Chapter 16

THE COOPERATIVE ECONOMY—A SUMMARY

The consumer is the person whose interest should be supreme in determining the whole process.¹

—WILLIAM TEMPLE, ARCHBISHOP OF CANTERBURY

SPREAD throughout these chapters are the ideas of many persons and of the author regarding the reasons why the cooperative economy needs to be created; the processes and the organizations by which the cooperative economy is already abuilding; the nature of the cooperative economy; the great good for human beings inherent in the system; the value of the cooperative system as a practical alternative to its rivals—capitalism, Communism and Fascism; and the potential contributions of the cooperative economy to the development of a free society.

In the following paragraphs the author now presents a summary of these points, despite his knowledge that this involves the risk of being criticized for oversimplification. What has previously been said about the cooperative economic system, may be condensed as follows:

1. *Why a Cooperative Economy?* To many people the creation of the cooperative, democratic economy looms up as a great unfinished task. It is a necessity, if continued progress is to be made toward the democratic ideal. The cooperative economy will help insure the future of political democracy. It will firmly undergird the free governmental institutions which are now so highly prized. The idea of a cooperative economy is, like the general concept of democracy, an end generally recognized as good. It is an idea that, like the wish for justice, lives within us, as a "great longing." Fortunately, too, it is an idea that

¹ *The Hope of A New World*, New York: The Macmillan Company, 1942.

has hands and feet. It is not something afar off—it is already in process.

2. *What are the Agencies and Processes by which the Cooperative Economy is Already Being Built?* It has often been said that our central economic problem has been one of distribution. Large numbers of individuals and families have had inadequate income to purchase enough goods and services at the prices at which they have been offered to them—this in spite of the great productive capacity in our land. "Producers' pay too low—consumers' prices too high." Yet a small proportion of members of the economy have secured large rewards and made large savings in the process. Informed opinion has pronounced that these savings have been to an important degree unproductive, and have been unduly large for relatively few people. There has thus been widely recognized a need for a more fair and just distribution of income. Along with this there is need for conserving adequate proportions of the savings of the people for "productive investment."

Various democratic economic movements and agencies described in this book are in the process of redistributing the purchasing power. *Three types* of organization are aiming to reduce the consumer prices that are "too high"; these are the purchasing cooperatives, the cooperative finance organizations and the publicly owned utilities. *Three other types* are at work to try to raise the returns of producers that are "too low"; these are the farm marketing cooperatives, the collective bargaining organizations of labor, and the governmental agencies moving toward national social and economic minima. These movements, voluntary and governmental, strive to eliminate poverty, unemployment and tenancy.

3. *What Is the Nature of the Cooperative Economy?* If the movements and processes just described continue to develop,

there will eventually be established a cooperative economy with the following chief characteristics:

The ultimate control in the cooperative economy will be "cost control." Cost will control the exchanges of goods. Savings made above cost will be distributed to the users and owners to the extent of their participation in the various economic enterprises. The surpluses of these operations will thus spread purchasing power among the people. This is the basis, in social theory, of "the people's program of peace and plenty."

The cooperative economy will thus be "managed" by the voluntary organizations of producers and of consumers, and by the agencies publicly owned by citizens. This economy will be self-contained, and independent of the political state, although interdependent with it.

4. *What Are the Chief "Goods" for Human Beings in the Cooperative System?* The cooperative economy will be essentially decentralist, providing for control by the people "from within and below." It will also provide for balances between individual freedom and self-imposed controls. It will thus integrate self-interest and social responsibility. Because it provides these "goods," it will be a truly human system.

Cooperative economic institutions appeal to the moral sense of individuals. They provide social arrangements that enable the best tendencies within us to flourish. The cooperative plans provide the charters, even the "Magna Chartas," of economic freedom, and thus help to insure all the other freedoms. The cooperative economy is thus one of the chief cornerstones of the free society.

5. *What Makes the Cooperative System a Practical Alternative to Capitalism, Communism and Fascism?* The people can only control what they directly own. The cooperative system recognizes the importance of personal ownership of property, and the close relationships between "life, liberty and property."

It also provides for group ownership of property by the voluntary techniques of cooperative organization, and by public cooperation of citizens for the ownership of the utilities. The cooperative ideas and plans "define the economic organization of liberty," to repeat Horace M. Kallen's grand generalization.

State control of the economy endangers liberty. It implies compulsory cooperation, the coercion of minorities. State control easily becomes remote control. It is subject to the vagaries of political winds. It tends, unfortunately, toward a measure of irresponsible bureaucratic dictatorship, and toward the "servile state."

6. *How Can Further Progress Be Made?* By cooperation among cooperators. This may sound too simple, but it is necessary to state the obvious. The all too simple fact is that there has been too little cooperation among the leaders of the various types of cooperative movements.

By the wide organization of study-action groups among all groups and classes of young people and adults, for the purpose of considering human needs and current situations and the steps that should be taken to meet them, and for popularizing the great teachings of the philosophers of the cooperative movement.

By extending voluntary organization. This is a central duty, in the midst of an expanding stateism. We have our choice—either there will be more voluntary cooperation or more compulsory cooperation.

By joining the teachings of the idealists of the race with the cooperative techniques that are much more than techniques, thus releasing for fruitful activity the capacities for generous associated effort that usually lie dormant within us.

APPENDIX

CONTINUING THE DISCUSSION

In this part we present three brief aids for leaders and members of study-action groups, discussion circles, advisory councils, forums, classes, etc. which wish to go further into the issues discussed in this book, in terms of their own experience. These aids are:

1. A discussion syllabus that lists questions based on the various chapters, except that the first set is intended for an introductory session. The questions listed below are only to suggest possible approaches. The members and leaders may, of course, work out their own. Again, there is no thought on the part of the compiler that his questions should be rigidly followed, or that, all of those given should be taken up at one session. Flexibility should rule.

2. A directory of national agencies whose activities are in the general areas of interest summarized in this book.

3. A bibliography consisting of selected books, pamphlets and periodicals related to the movements being considered.

A DISCUSSION SYLLABUS

Introductory: We, the People, and Our Economy

- a. As you think of the economic arrangements under which you live, what is of most concern to you?
- b. What wartime developments are of special interest?
- c. What should we expect of an economy?

- d. What are our great economic needs as a people?
- e. Do you think we can have elements of both freedom and security in our economy?
- f. How can we care for both individual and social needs?
- g. What are the most important courses of action we should resolve to take in relation to our economy?

Chapter 1

Cooperative Purchasing

- a. What has been our actual experience with cooperative purchasing? (If you've been members for a long time, take a long look and evaluate; if you've only read about it, try to talk it over with those who have had some experience.)
- b. Why do people call consumer's cooperation a social invention of great importance?
- c. Is *consumers'* cooperation a good way toward an economic democracy?
- d. Why do you think we have neglected "the consumer point of view?"
- e. What do you think are the chief differences between consumer organizations and producer organizations?
- f. What promising developments have there been in consumer organizations?
- g. What seems to be most difficult about getting consumers organized?
- h. How can we help to get consumers organized on a wide scale more quickly than has ever been done before?

Chapter 2

Cooperative Finance

- a. "What's been done" about credit in your community?
- b. Who's "sitting pretty" in this credit structure?
- c. What are the unmet credit needs of the people we know?
- d. What place have credit unions in the cooperative economy?
- e. Why do you think insurance co-ops should be rapidly developed?
- f. What do you think about installment buying?
- g. When should we go into debt, and when should we be getting out of it?
- h. Do we need a voluntary national cooperative finance system?
- i. How can we help bring it about?

Chapter 3

Labor Unions

- a. What has been our experience with collective bargaining by industrial workers?
- b. Why is collective bargaining so important to large numbers of workers?
- c. Is collective bargaining a necessity in a large industrial country?
- d. What have been the most promising results of labor organization?
- e. What have been the chief problems involved in labor organization?
- f. In what ways have labor organizations promoted the consumer interest?
- g. In what ways have labor organizations neglected the consumer interest?
- h. Should labor groups generally encourage collective buying?
- i. How should labor, consumer and farm organizations work together?

Chapter 4

Farmers' Marketing

- a. What has been our chief experience with farmers' cooperative marketing? (If you have belonged to such a co-op, think over your entire experience; if you have had no actual contact, try to talk with some who have or bring in literature.)
- b. Why is this cooperative marketing technique important in the minds of the farm people?
- c. What benefits have come to farmers through cooperative marketing?
- d. What benefits have come to consumers' through cooperative marketing?
- e. What are the chief problems involved in cooperative marketing?
- f. Do farmers need cooperative purchase marketing, credit? Why?
- g. How are these three cooperative movements related to one another?
- h. What do you wish to do about the farm marketing movement?

Chapter 5

Productive Homesteads

- a. Do you think the family type of farm, or the productive homestead, has an important place in a cooperative economy?
- b. Why have the trends of American life been so unfavorable to these farm people?

- c. Should city people take an interest in preserving the family type of farm? Why?
- d. Should the whole national policy be such as to preserve the family type of farm?
- e. What do you think about the methods of the Farm Security Administration to improve the condition of the low-income farmers?
- f. How do you feel about the self-help production and other co-ops encouraged by the F.S.A.?
- g. Do you think we can use modern technology to develop a new type of homestead—something to move forward to?
- h. What is the prospect of the family type of farm?
- i. What must we all do to encourage the people on the productive homesteads?

Chapter 6

The Professions

- a. What interest have you seen shown by professional people in building a cooperative economy?
- b. What types of professional people are most interested?
- c. How do you explain the marked individualism of many professional people?
- d. What do you think will help to interest professional people in democratic economic movements?
- e. Do we need new kinds of professional codes, geared to the social crises in which we live?
- f. Why are many professional codes permitted to remain in a crusty condition?
- g. Which democratic economic movements especially need the co-operation of the professions?

Chapter 7

Independent Business

- a. Do you believe in having an economy in which any man will have opportunity to go into business for himself?
- b. Which businesses would the independent individual be least likely to be able to enter today?
- c. Which businesses would the independent be most likely to enter today?

- d. Why has the road of many independents in business been so hard?
- e. What do you see as the main contributions made by retail-owned cooperatives?
- f. Do retail-owned cooperatives promise to be important cooperative movements?
- g. Should the independents try to "go it alone" just as they always have?
- h. What do you think is the prospect of the independent if the cooperative movements develop widely in America?

Chapter 8

Regulation

- a. What do you think are the chief characteristics of the corporate form of business?
- b. Why have the people favored an increasing public regulation of this form of business?
- c. In what kinds of regulation have the members of this group had a special interest?
- d. What are the chief limitations of public regulation?
- e. Which businesses do you feel have been most wisely regulated by government?
- f. Do you favor the activities of the Antitrust Division of the Department of Justice?
- g. Is the work of the Federal Trade Commission to be generally encouraged?
- h. What should be the general policy in public regulation of corporate business—during the war? After the War?

Chapter 9

Public Ownership

- a. How much public ownership have we had in our locality?
- b. What has been the public reaction to public ownership?
- c. Would you limit public ownership to what are ordinarily called the utilities?
- d. Is public ownership as efficient as private ownership?
- e. Does public ownership provide "incentive" for development?
- f. Should the T.V.A. type of regional development be extended?
- g. Is a vital movement for public ownership essential for the building of a cooperative economy?
- h. What do we wish to do about public ownership?

Chapter 10

Public Credit

- a. Why has the government become such a big banker?
- b. What groups of people say they have benefited from public credit?
- c. What groups of people are opposed to government credit agencies?
- d. What people have been left out altogether?
- e. What functions should be performed by public credit agencies, and which by voluntary cooperative finance agencies?
- f. Should cooperative credit agencies eventually do away with the need for public credit?
- g. Do the co-ops need to make a "declaration of independence" of government credit—if they would build the cooperative economy?

Chapter 11

Taxation

- a. What's concerning people the most when taxes come up today?
- b. What do you think of the people who say, Let's tax still more heavily so the government need borrow less?
- c. What are your ideas about income taxes, sales taxes, inheritance taxes?
- d. Would you want a national plan worked out now, calculated to pay off the public debt?
- e. Or, will we just drift along and carry the public debt forever?
- f. Will the huge public debt make a rigid state control over our economy a continuing necessity?
- g. What kind of a local tax program do you favor?
- h. What kind of a national tax program do you favor?

Chapter 12

National Social Minima

- a. Is it desirable to have *national* social standards?
- b. Are our regional differences so great that national social standards won't work?
- c. What economic groups have benefited most by the steps already taken toward national social minima?
- d. Should the general plan of providing national social minima be extended to domestic servants, farm laborers, migratory workers, etc.?
- e. In which of the following do we think national social standards are especially important—

Health services and facilities?
Libraries?
Public schools?
Wages?
Leisure?
Housing?
Food?
Work opportunities?
Old-age insurance?
Unemployment compensation?

Chapter 13

International Cooperation

- a. In what kind of international economic cooperation are you most interested?
- b. Should we practice mutual aid through broad trade with other nations?
- c. What would we have to do in order to have broad trade?
- d. What international cooperation should be the responsibility of governments?
- e. What international cooperation should be handled by a separate people's economic agency, independent of governments?
- f. Do we really want freedom from want throughout the world?
- g. If the world is an economic unit, what kind of conduct is called for by the American peoples?
- h. How could foreign relief activities be thoroughly cooperative?
- i. What kind of international organizations do you think should be created by the people of the United States in cooperation with other people?
- j. What would be the elements of a practical international, economic cooperative program.

Chapter 14

Duties and Rights

- a. What's your bill of economic duties for a citizen?
- b. What's your bill of economic rights for a citizen?
- c. Have we been more concerned about rights than about duties?
- d. How have our various lobbies in Washington been contributing toward a cooperative economy?

- e. What would be the best way to conciliate among the various producing groups?
- f. What must we do to eliminate racial discriminations, and to achieve harmony and cooperation among racial and cultural groups?
- g. With what motive will we build the cooperative economy?
- h. What kind of education do we need to build the cooperative economy?
- i. How could we harness the capacities for generous cooperation that lie dormant within each one of us?

Chapter 15

Beyond State Control

- a. Do you believe that state control is a desirable end—or a poor goal—for an economy?
- b. Should we strive mightily to restore "our mixed economic system" as quickly as possible after the war?
- c. What steps must we then take to build "the true cooperative economy in the long run"?
- d. Do you believe that business can neither control government nor government control business *in a free society*?
- e. Do you think that the great issues of time center around the possible dominance of the political over the other institutions of society?
- f. Is our task that of insuring free government, free church, free school, free economy, in the free society?
- g. Is our task, in building the free economy, that of creating a producer-consumer, cooperative economy, self-contained, independent?
- h. What kind of public cooperation, through government agencies, will be desirable for citizens in the cooperative economy?
- i. Is the decentralized economy, emphasizing self-help and voluntary effort, the truly human one?
- j. What must we do to help bring about the cooperative economy?

Chapter 16

The Cooperative Economic System—A Summary

- a. Why should the cooperative economic system be created?
- b. What are the chief agencies and processes by which the cooperative system is already being built?

- c. What is the nature of the cooperative economic system?
- d. What are the "highest goods" or the "chief values" for human beings in a cooperative economy?
- e. Why is the cooperative economic system a practical alternative to capitalism, Fascism and Communism?
- f. What would be the main contributions of the cooperative economy to the free society?
- g. What are the most promising methods of building the cooperative economy?

DIRECTORY

Selected National Agencies, Voluntary and Governmental Listed Alphabetically

American Farm Bureau Federation, 58 E. Washington St., Chicago, Ill.

American Federation of Labor, A. F. of L. Building, Washington, D. C.

American Institute of Food Distribution, 420 Lexington Ave., New York, N. Y.

Bureau of Labor Statistics, U. S. Department of Labor, Washington, D. C.

Bureau of Agricultural Economics, U. S. Department of Agriculture, Washington, D. C.

Central Conference of American Rabbis, Social Justice Commission, 5003 Washington Ave., St. Louis, Mo.

Chamber of Commerce of the United States, Washington, D. C.

Community Service, Inc., Yellow Springs, Ohio.

Congress of Industrial Organizations, Washington, D. C.

Consumers' Counsel Division, U. S. Department of Agriculture, Washington, D. C.

Consumer Distribution Corporation, 420 Lexington Ave., New York, N. Y.

Cooperative League of the U.S.A., 608 S. Dearborn St., Chicago, Ill. (Also 167 West 12th St., New York, N. Y. and 726 Jackson Place, Washington, D. C.)

Credit Union National Association, Raiffeisen House, Madison, Wis.

Extension Service, U. S. Department of Agriculture, Washington, D. C.

Farm Credit Administration, Kansas City, Mo.

Farmers' Educational and Cooperative Union, Denver, Colorado.

Farm Security Administration, U. S. Department of Agriculture, Washington, D. C.

Federal Council of the Churches of Christ in America, 297 Fourth Ave., New York, N. Y.

Federal Credit Union Section, Federal Deposit Insurance Corporation, Washington, D. C.

Federal Security Agency, Washington, D. C.

Federal Power Commission, Washington, D. C.

League for Industrial Democracy, 112 E. 19th St., New York, N. Y.

National Association of Manufacturers, 14 West 49th St., New York, N. Y.

National Catholic Rural Life Conference, 3801 Grand Ave., Des Moines, Iowa.

National Catholic Welfare Conference, 1312 Massachusetts Ave., N. W., Washington, D. C.

National Cooperatives, 608 S. Dearborn St., Chicago, Ill.

National Council of Farmer Cooperatives, 1731 Eye St., N. W., Washington, D. C.

National Education Association, 1201—16th St., N. W., Washington, D. C.

National Grange, 1343 H St., N. W., Washington, D. C.

National Housing Agency, Washington, D. C.

National Cooperative Milk Producers' Federation, 1731 Eye St., N. W., Washington, D. C.

National Planning Association, 800 21st St., Washington, D. C.

National Resources Planning Board, Office of the President, Washington, D. C.

Progressive Education Association, 221 W. 57th St., New York, N. Y.

Public Ownership League, 127 N. Dearborn St., Chicago, Ill.

Public Affairs Committee, 30 Rockefeller Plaza, New York, N. Y.

Railway Labor Executives Association, 10 Independence Ave., S. W., Washington, D. C.

Recreation Cooperatives, Delaware, Ohio.

Rural Electrification Administration, Washington, D. C.

School of Living, Suffern, N. Y.

Tax Institute, 135 S. 36th St., Philadelphia, Pa.

Tennessee Valley Authority, Knoxville, Tenn.

U. S. Public Health Service, Washington, D. C.

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